

THE INDONESIAN QUARTERLY

Indonesia in A Changing Environment

- Current Events
- Indonesia in A Changing World Environment: Multilateralism vs Regionalism
- Economic Reform and Deregulation in Indonesia
- Economic Development and Human Resource Management: A Challenge for Indonesian Managers
- Poverty and Human Resource Development in Indonesia: A Brief Survey
- Indonesia's Society and Culture in 1994
- Australia-Indonesia Relations in the Period of the Indonesian New Order Government
- Historical Variables of the United States Relations with the Southeast Asian Region
- Book Review



The Quarterly

The Indonesian Quarterly is a journal of policy oriented studies published by the Centre for Strategic and International Studies (CSIS), Jalan Tanah Abang III/23-27, Jakarta 10160. It is a medium for research findings, evaluations and views of scholars, statesmen and thinkers on the Indonesian situation and its problems. It is also a medium for Indonesian views on regional and global problems. The opinions expressed in *The Indonesian Quarterly* are those of their authors and do not necessarily reflect the opinion of the CSIS.

The Logo



To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidhartha, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusan Budi*," which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a memorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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The Indonesian Quarterly is published in January, April, July and October.

SIT

01381/SK/Dirjen PG/SIT/72

ISSN

0304-2170

THE INDONESIAN UARTERLY

VOL. XXIII, NO. 2, SECOND QUARTER, 1995

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Current Events

Navigating Between Two Streams: Islam in Modernising Indonesia*

Muhammad A.S. Hikam

THE present and future development of Islam in Indonesia has been shaped by three interrelated elements. *First* is the global trend of Islamic movements, *second* is the particularity of historical background of Islam in the country, and *third*, which I think the most crucial one, is the approach through which the Muslim community in general and its leaders in particular respond to the problems brought about by challenges in Indonesian society. The failure to take into account these elements, in our analysis, will result, at least, in one-sided views of Islam in Indonesia and in being incapable of coming to grips with its complexities.

The global trend of Islamic movements affects directly and indirectly the Indonesian *ummah* (the community of believers). In recent years, thanks primarily to the modern communication technologies in the forms of

mass-media exposure, global information networkings, and modern transportation systems, the events of Islamic resurgence in other parts of the Islamic world can be followed almost instantaneously. Yet, while it is true that the Indonesian Muslims share with their fellow Muslims' feelings around the world, it will be misleading to picture the development of Islam in Indonesia solely in light of the current global trend.

The distinct historical background of Islamisation processes and the characteristic of Indonesian society make any sweeping generalisation untenable. The distinct patterns and various sources of Islamisation in the archipelago since the fourteenth century have been responsible for the accommodative and receptive character of Islam in the country. Also, the heterogeneous nature of Indonesian people necessitates various interpretations in the doctrines and practices. Finally, Indonesians are also the recipients of many traditions and influences originated from different civilisations prior to and during the process of Islamisation. Such cultural traditions as indigenous traditions, Hinduism, Buddhism, Confucianism and later Christianity have coexisted with the Islamic tradition. As a consequence, even though Islam is the religion of the majority of Indonesian population, it has sociological and historical characteristics which in many ways differ from those of Middle Eastern, African and other Asian countries.

*Paper presented at the Asia Society's International Conference and Public Symposium, "Uncovering Indonesia: Insights for the 1990s." New Orleans, L.A., USA, 13 March 1995.

It is no surprise that many strands of Islam emerge as a result of doctrinal reflections responding to the existing social, economic and political changes. Religious reform movements in the early twentieth century, for example, have resulted in the emergence of the spirit of puritan Islam as a critique of the traditionalist practices. Anti-colonialism and the struggle for independence made Islam one of the major forces in society which shape ideological and political developments in the country.

The current phenomenon of Islamic resurgence in Indonesia can be seen as a dynamic response to the challenge of modernisation. As a process which rapidly transforms the existing order of things, it has resulted in a mixed feeling and insecurity among the Islamic leaders. On the one hand, modernisation has brought about unprecedented outcomes which make it possible for the *ummah* to escape from backwardness and enable the Muslims to better perform religious obligations. On the other hand, the threat of secularism as one of by-products of modernity is seen by many leaders as a threat to religious values and traditions.

Different approaches have been taken by the Islamic leaders to respond to such a challenge. Three major trends can be found in this respect: legalistic, cultural, and social transformative ones. Legalistic approach aims at revamping the existing order in society under the blue-print of Islamic legal, ritual and formalistic percepts. Islamic doctrines and laws become the sole arbiter and standard of references in all practices and affairs in society. Neo-orthodox Muslims have opted such an approach with different intensity ranging from gradualist, persuasive to radical ones.

The cultural approach is aimed at distilling methods from Islamic teachings which are capable of integrating non-religious sphere (secularistic part) into a new totality of Islamic framework of development. This is similar to what Gilles Kepel (*The Revenge of God*, 1994) calls the idea of Islamisation of modernity. The efforts to develop such parallel institutions under Islamic teachings (banking, scientific enterprises, etc.) are contemplated by the advocates of such an approach.

The transformative approach aims to seek solutions to the problems of modernity by avoiding exclusive attitudes both toward neo-orthodoxy and non-Islamic aspiration. It advocates accommodationist attitudes and introduces disturbing questions addressed to the central doctrines of orthodoxy. Therefore, the advocates of this strategy reject legal formalistic and interpretations of the doctrines, including literal adherence to Quranic prescriptions and Prophetic traditions without reformulating fundamentals of religious beliefs, so as to guarantee that those beliefs take into account the empirical dimensions of life.

It is the third approach which needs our attention. Such leading Muslim intellectuals as Abdurrahman Wahid, Djohan Effendi, Moeslim Abdurrahman, Masdar F. Mas'udi and others have pursued this strategy, advocating non-confrontational understanding of Islam and modernity, seeking for open dialogues with other groups aimed at reaching mutual understanding of problems faced by society in general, and encouraging the *ummah* to work together with others in resolving such pressing questions as massive poverty, abuses of human rights, the stagnation of democratisation, etc.

Thus amidst the current trend of Islamic resurgence in the Islamic world which commonly takes radical, legal formalistic forms, the development of Islam in Indonesia shows a different experiment. It attempts to navigate through the two streams: modernity and traditionalist and neo-orthodoxy, offering more adequate approaches that are more beneficial to Indonesian society in general. Some of the manifestations may be found in the attempts to establish forums for dialogues such as DIAN (Interfaith Dialogues), FAHAMI (Religious Forum for Human Rights), and activities from young intellectuals to question the traditionally regarded sensitive issues such as whether or not secularisation is a detriment for religious life.

Obviously the experiment is bound to face resistance coming both from inside and outside of the Muslim communities. For, the repercussions of such a transformative approach are tremendous at the theoretical and practical levels. It questions the viability of the use of religion as a political ideology and the conventional claim that Islamic values can only be fully implemented through power and formal legislations. The idea of putting Islamic values as a complementary and not as the single source in the making of modern Indonesian nation will face a tremendous opposition from the neo-orthodox proponents.

At the political realm, the experiment will also run counter to ongoing efforts of some members of the Indonesian ruling elites to mobilise Islamic force to back-up their struggles for power. Both cooptations and repression can be expected to happen among those proponents of this transformative approach.

Yet, there are some reasons to be opti-

mistic that the experiment can be carried out in the long-run. For there is organisational and mass-based support for such an endeavour. NU and Muhammadiyah, for instance, are two largest Islamic organisations whose rural and urban bases can become a fertile ground for the implementation of the transformative strategy. In addition, there are figures such as Abdurrahman Wahid who represents the kind of religious leader and intellectual whose ideas transcend the boundaries of particularism and therefore capture the imagination of all layers of society. And last but not least, the transformative approach has its social and historical foundations in Indonesian society which reject any radicalism and support accommodative attitudes and gradualism.

Policy Issues in US - Indonesia Relations*

Hasjim Djalal

BROADLY speaking, the political relations between Indonesia and the United States are now good, despite some ups and downs in the past. That Indonesia, the most populous country in the world (195 million) has been identified by the US as one of ten growing economies in the world and therefore has been chosen as one of the target countries for the US eco-

*The opinions expressed in this paper are personal and do not necessarily reflect the opinion of the Indonesian Government.

conomic drive, and that some voices in the US have been heard to reinstate IMET Programme for Indonesia, are encouraging.

The increasing interaction between the two countries and their leaders, either through the APEC process, the ASEAN-PMC or consultation between the NAM Chairman and the G-7, has also contributed toward better understanding and good rapports between the two countries. There is an increasing appreciation in the US toward Indonesian roles and potentials, either in bilateral, regional, or global context.

As the economy of Indonesia grows and the increasing progress and social improvements spread over the country, the interactions between Indonesia and the US intensify. It is reasonable to expect that some frictions are occurring and perhaps more could occur in the future. The social fabric and the political culture of the two countries are not exactly the same. While the American people generally praise individual achievement and deadly competition, most Indonesians would stress communal effort, and harmony through consultation and "mushawarah". Public debate and public dissent have strong roots in the American political, culture, while most Indonesians would prefer quiet persuasion and behind the scene discussion. It is hoped, however, that those differences would not be destructive or negatively confrontational but would be manageable. It should be the responsibility of the two sides to see to it that it would be so. It should be realised that negative confrontation could and would, in the end, damage the relations between the two countries to the benefit of no one but to the detriment of both.

From Indonesian point of view, the problems that would have the tendency of being

misunderstood in the US, thus potentially damaging, are, among others:

- a. The problem of democratisation in Indonesia. The two countries believe in democracy. In fact, Indonesians learn a lot from the US Declaration of Independence. The two countries have similar democratic systems, although naturally there are differences. Like the US, Indonesia has a fixed-term for the Presidency, they both have regular elections for the National Assembly, although in Indonesia it is for every five years and in the US for every four years. Indonesia has three political organisations (two political parties and one functional group), while the US only has two political parties, although the possibility for a third political force often comes up during the national election. Due to its historical background, Indonesian Armed Forces play greater political role in the country than their counterparts in the US. Unlike Indonesia, the US is a Federation with a strong role of the Senate, while Indonesia, after attempting a federal system in 1949-1950, opted for a unitary system in view of its archipelagic and islands nation situation, which in itself is very different from the US as a continental country. The US should appreciate the differences and the varied problems faced by Indonesia in forging a democratic system within a multi-racial, multi-ethnic, multi-cultural, multi-islands and multi-religious society and various other "multis". Indonesian experiences may be different from the US, the diversities of Indonesia tend to unravel national stability and unity in a federal system; thus a strong propensity toward unitary system in safeguarding the national unity and stability. It took more than 200 years since its Indepen-

dence for the US to arrive at its present democratic system, while Indonesia has only 50 years by now;

- b. Market oriented economic system. Indonesia has learned a lot from the American teachings of the need for a national economy based on market forces. Substantial numbers of Indonesian economic technocrats are American educated. They have found out lately, however, that what the Americans taught them about "free trade" and "no protectionism" have had some different practical meaning when it comes to exporting their commodities to some American markets. Although Americans profess free market and free trade to the world, in reality and in the eyes of many Indonesian entrepreneurs, a lot of US practices seem to indicate: "Do as I say, not as I do";
- c. Human rights remain a major problem in the relations between the two countries. Lately, the protection of human rights in East Timor, due to some reporting in the world press (which in some instances are exaggerated, and in some others are clearly politically motivated) have come to the fore as if the East Timor issue is the only thing that matters. The East Timor issue is basically a remnant of the Portuguese colonial mismanagement, and therefore would probably remain there for some time, namely until the United Nations is in a position to find out a solution together with Indonesia and Portugal. Indonesia seems to have gone far in its attempt to respond and to accommodate reasonable international public opinions, but naturally will not be in a position to comply or to satisfy international propaganda whose definite political objective is to disintegrate East Timor, which

in the end may also cause the disintegration of Indonesia itself. Any one who is familiar with the history of Indonesian struggle for Independence and for national unity and development would easily understand this. The US should weigh whether it would be in its national interests to see a strong, democratic, prosperous, and united Indonesia friendly to the US, or whether it would prefer a "disintegrated" Indonesia whose outlook toward the US would be uncertain at best;

- d. The problems of "linkages" in economic relations between the US and other countries, including Indonesia, have also cropped-up within the last few years. For instance, the attempt by some people to link the relationships between countries through the criteria of human rights, economic system, democratisation process, environmental protection, military expenditure of a particular country, their labour relations, and so forth, are taking some vogue in the western industrial world. These issues are important in themselves. Indonesia for one is eager to make "progress" in all of these issues. But, as indicated above, there are local, national, and regional conditions and problems that have to be taken into account. The democratisation process and the implementation of human rights principle must take into account the historical and cultural background of a country. It should be remembered that it took more than a century for the US to achieve civil and political liberties for all races after the abolition of slavery and the conclusion of civil war in the middle of the last century. Even so, the problems of human rights and racial prejudices in the US still

show its ugly faces from time to time, almost one and a half century after the end of the civil war. The open market economy must also take into account the level of economic development of a particular country. To link relationship between countries to the environmental problems is not helpful either. It would be more productive if the people of Indonesia are being helped to protect their environment, including their forest and their oceans, rather than blaming them for developing the resources to meet the needs of their poor and growing population. For the Americans to blame other countries for military spending is an irony because there is no other country in the world that spend so much money on defence than the US. The US insistence on improving labour relations in Indonesia is understandable, but to link this problem to bilateral trade and economic relations is tantamount to protectionism and the prevention of trade expansion which in the end would be detrimental to the Indonesian labour which the US wants to protect.

Another potential policy issue in the relations between the US and Indonesia could be in the field of maritime affairs. For many decades, Indonesia and the US have attempted to seek accommodation on this issue. As an archipelagic country, consisting of thousands of islands, large and small, Indonesia would like to seek universal recognition to its sovereignty over its archipelagic waters as well as its sovereign rights over the resources of its Exclusive Economic Zone and continental shelf. Indonesia was a promoter for the acceptance of the Law of the Sea Convention of 1982, while the US did not accept the LOS Convention 1982, simply because it

did not like the provisions dealing with the seabed mining in the International Seabed Area. Fortunately, this discrepancy of views has now been settled by the adoption of an Agreement last July 1994 by the General Assembly of the United Nations, which regulates the implementation of the part of the LOS Convention dealing with the seabed mining issue. Both Indonesia and the US have signed the Agreement. I hope that the American Congress, at least for the sake of order in the world seas and oceans, will accept the Agreement and therefore remove one of the most difficult issues between the US and many countries in ocean affairs.

Indonesia is now implementing the LOS Convention and is working hard to create a peaceful, stable and cooperative environment surrounding Indonesia which are important for its development. It has taken initiative to manage potential conflicts and to avoid confrontation in the South China Sea as a result of conflicting territorial and jurisdictional claims, and to develop cooperation instead. The US Government has expressed support to this policy initiative and hopefully the US Congress would to the same. Indonesia has also taken an active interests in promoting maritime cooperation in the Indian Ocean that has also been supported by the US. Domestically, Indonesia is studying various measures to implement the LOS Convention provisions. After many years of different perception on maritime issues, the possibility for cooperation between Indonesia and the US now presents itself in the South China Sea, in the Indian Ocean and elsewhere. The two countries shall explore these possibilities.

Finally, Indonesia and the US also have good potentials to promote cooperation on other policy issues. Indonesia would like to

see the continued attention and presence of the US in Southeast Asia in order to promote peace, stability, cooperation and economic development in the region. But, in pursuing its interests in the region, the US should also take into serious consideration the aspirations of the countries in the region, the prevailing condition and the socio-historical background of the region. The US also needs

Southeast Asia, particularly Indonesia, as a partner in regional and global peace, stability, cooperation, and progress, particularly since Indonesia also controls large and important maritime space and resources in the area, which are also important for the US global strategy and economy. The two countries should work together as partners for mutual benefits.

Indonesia in A Changing World Environment: Multilateralism vs Regionalism*

Mari Pangestu

Introduction

THE increased tendency towards regionalism has increased in the wake of the uncertainties of the outcome of the Uruguay Round in the late 1980s and the proposed formation of EC single market by 1992. In 1989 APEC (Asia Pacific Economic Cooperation) was set up as a loose informal forum. The US-Canada Free Trade Area was created in 1988. This was soon followed by NAFTA (North American Free Trade Area).

There are no formal regional trade agreements in East Asia¹ so that there has been a renewal of interest in regionalism, both formal and informal arrangements, in the Asian region. For instance, we have seen the renewed zeal which led to the formation of AFTA in 1992. Then there is the proposal to set up an East Asian Economic Caucus (previously Group) proposed by the Prime Minister of Malaysia in 1991. Another phenome-

non is the evolution of growth triangles or sub-regional zones comprising essentially a free trade zone that is made up of geographically proximate areas located in different countries. After the development of the Singapore-Johor-Riau (Sijori) growth triangle in 1989, there has been a series of proposals to set up similar growth areas in other parts of ASEAN.

The successful conclusion of the Uruguay Round is not expected to slowdown regionalism. On the contrary, because there continue to be fears and uncertainties about the implementation of GATT 1994 and the effectiveness of WTO, the justification of regionalism as an "insurance policy" continues to be important. Furthermore, responding to fears of the world breaking up into regional trading blocs where everyone would be worse off, there is a new move to ensure that it will be "open regionalism" that is practised. In essence this means that liberalisation under regional agreements should be undertaken in a non discriminatory and unconditional MFN basis. Only through such a process will regional liberalisation become the building blocks to the realisation of an open and rules based multilateral trading system.

*This paper (together with other papers) will be published by IDA and LPEM of the University of Indonesia.

¹East Asia is taken to mean the economies in North-east (China, Hong Kong, Japan, Taiwan) and Southeast Asia (ASEAN).

The Indonesian economy has undergone significant liberalisation since the mid 1980s. In light of the above developments, the process of further opening up of the Indonesian economy should not just be viewed in the unilateral way, but should also be viewed in the wider regional and multilateral context. Therefore, while ASEAN will remain important for Indonesia with regard to foreign and economic policy, there is a realisation that the relevancy of AFTA must also be viewed in the wider context of the changing world environment, namely regional developments such as APEC (Asia Pacific Economic Cooperation) and the multilateral system of trade under WTO.

The aim of this paper is to put the process of Indonesia's economic opening up in the wider context of a changing regional and world environment. The following sections focus on the objectives, approaches, impinging factors, and preliminary results of the liberalisation process that has taken place in Indonesia under the unilateral, regional and multilateral umbrella. In the concluding sections an analysis is made with regard to the alternatives facing Indonesia in the process of economic opening up and what the recommended approach should be.

Unilateral Liberalisation: Market Driven Integration

Indonesia has undertaken unilateral economic reforms since the early 1980s, and especially since 1986 when the price of oil collapsed. The reform process has been very much driven by the need for adjustment in response to adverse external conditions rather than pressures from formal regional integration, multilateral commitments under

GATT, or donor agencies such as the World Bank.

Other than Indonesia, the other East Asian economies have also liberalised and undertaken structural adjustments. The liberalisation of capital movements, especially in Taiwan and South Korea facilitated flows of investment which inevitably also led to flows of trade. Appreciation of their currencies and rising costs, including increasing problems with labour in South Korea, have led to relocation from Japan and the East Asian Newly Industrialised Economies to China and the Southeast Asian economies, especially Indonesia, Malaysia, and Thailand. These developments which have led to an increase in intra-regional trade and investment, have been termed as "market driven integration" since intra-regional links were not brought about by formal regional arrangements as was the case in Europe.

Unilateral Liberalisation and Reforms in Indonesia

There have been many analyses of Indonesia's reform process since the early 1980s.² The underlying objective of deregulation is the conventional one of efficiency by increasing competition. In the wake of adverse external conditions, mainly falling oil and commodity prices as well as the appreciation of the yen, there was a recognition that Indonesia had to diversify its economy from reliance on oil exports, increase the role of the private sector, and increase the efficiency of the functioning of the economy.

The approach to reform and liberalisation was by and large a conventional one.

²See for instance Bhattacharya and Pangestu (1993).

The starting point was to correct macro-economic imbalances, including correcting the exchange rate by devaluation. After that, especially after the rapid decline in oil prices in 1986, there was strong commitment by the Indonesian government to undertake wide ranging trade, investment and financial sector reforms. What is perhaps unconventional is that financial liberalisation occurred early on before the real sector reforms were in place. Furthermore, since Indonesia has had an open capital account since the beginning of the new order period, this has to be taken as given rather than one of the later things to do, as is often recommended in the approach to liberalisation.

The main steps taken in trade liberalisation can be briefly summarised as follows: Tariffs were rationalised in March 1985 by an across the board reduction in the range and level of nominal tariffs. The range of tariffs was reduced from 0-225 per cent to 0-60 per cent and most tariff rates ranged from 5-35 per cent. The number of tariff levels was also reduced from twenty five to eleven.

Other than reduction and rationalisation of protection, many of the policy deregulation was linked with the push for non oil exports. Two important institutional reforms that are recognised to have had a major impact on boosting non oil exports were first improvements in customs clearance by removing the function of import clearance from the Indonesian customs to the Swiss surveyor company SGS. Second was the vast improvement in the duty exemption scheme for inputs used in export production.

Unilateral trade liberalisation has proceeded rapidly since 1986, with one to two deregulation packages every year eliminating

many of the non tariff barriers that had been put into place during the 1983-1986 period and replacing them with tariff equivalents. Tariffs have also been lowered gradually. In May 1990 tariffs were also reduced to a new ceiling of 40 per cent.

As a result average (unweighted) tariffs have declined by almost half from 37 per cent pre 1985 to 20 per cent by 1994 (Table 1). The coverage of non tariff barriers out of gross production has also declined from 41 per cent of total production in 1986 to 22 per cent in 1993 (Table 2).

Of course concern about protection continues since there are some products that continue to have high tariffs such as motor vehicles, motor cycles, and engineering products. Furthermore, while there has been significant reduction in non tariff barriers in the manufacturing sector, such as steel and engineering products, non tariff barriers are still high in food crops, and food, beverages and tobacco.

Another source of concern is that in the last few years, there has been a resurgence of import substitution arguments that has and could lead to resurgence of some protection. One of the most discussed case is the request by a private company for a 40 per cent tariff on petrochemical products which are major inputs to the synthetic fiber and plastics industry. The President, in his January 1995 budget speech has stressed that there is a case for protecting some industries, although the protection should be on a temporary basis. Past experience tells us however, that unless there is transparency and strict performance criteria, the temporary protection can last a long time and at the same time create distortions that affect the efficiency of other downstream industries, and in the end In-

donesia's competitiveness in the world market.

Liberalisation in foreign investment began in 1986 by increasing the maximum of foreign ownership to 95 per cent for export oriented projects and in 1989 the complicated priority list was replaced with a negative list. Subsequently, relaxation of various ownership, sector and divestment restrictions were undertaken, which culminated in June 1994. The main elements of the last deregulation are: restrictions on foreign ownership were lifted allowing 100 per cent foreign ownership in most cases; the minimum capital requirement was lifted; the

nine public sectors previously closed to foreign investment were opened up; and the requirement to divest foreign ownership to majority Indonesian equity was eliminated.

The results of the trade and investment liberalisation has been a surge in foreign investments, especially in export oriented investments and a significant increase in manufactured exports. Diversification of the export base away from oil has been relatively successful with around 40 per cent of exports accounted for by oil compared with 80 per cent at the peak of the oil boom. Growth of manufactured exports has averaged above 20 per cent up to 1992. However, due to the

Table 1

AVERAGE TARIFF LEVELS AFTER DEREGULATION

	1986	1988	1990	1991	1992	1993
Simple Average	27	22	20	20	20	20
Weighted Average						
• by import	13	14	11	11	11	12
• by production	19	18	17	15	13	13

Source: Ministry of Trade and World Bank.

Table 2

PERCENTAGE COVERAGE^a OF NON TARIFF BARRIERS
AFTER REFORM PACKAGES IN EACH YEAR

	1986	1987	1988	1989	1990	1991	1992	1993
Gross Production	41	38	29	28	25	22	22	22
Manufacturing	68	58	45	38	33	32	31	31
Agriculture	54	53	41	40	38	30	30	30
Import Value	43	25	21	17	15	13	13	13

^aPercentage coverage based on 1985 production for 1986. Subsequent years based on 1987 production.

Source: World Bank.

slowdown in export oriented investment and increased competition, there has been a slowdown in non oil export growth in the last two years with growth rate of 16 per cent in 1993 and 12 per cent in 1994. In order for Indonesia to maintain growth and competitiveness in non oil exports in the medium run there must be increased investments and technological capability.

The deregulation process is expected to continue in the near future in Indonesia. However, there are indications of a slow down in liberalisation on the trade front as well as deregulation in general since difficult decisions of reducing protection in some politically sensitive sectors need to be done.

East Asia: Market Driven Integration

Indonesia has made substantial progress in unilateral liberalisation as noted above. Other economies in the region have also undergone similar reform, adjustment and restructuring so that East Asia continues to be the most dynamic and fastest growing region in the world. Growth in East Asia in the last two decades has averaged seven per cent per annum and World Bank projects that in the 1990s the region will continue to grow at the highest rate compared with other regions. There has also at the same time been an increase in both intra-regional trade and investment. Intra-regional trade in the East Asian region has increased in the last decade, while the level of intra-regional trade at around 40 per cent is lower than that of the EC (around 60 per cent), it is similar to NAFTA. Investment inflows as well as outflows have grown rapidly, with outflows not just coming from Japan but also the East Asian Newly Industrialised Economies (NIE).

There have been both push and pull factors underlying these trends. The factors pushing outward Japanese investments are well-known: appreciation of the yen, rising costs and the process of restructuring of the Japanese economy. The NIE similarly experienced rising labour costs as well as appreciation in their currencies. In the case of Korea, there was the addition of labour union problems. This decline in competitiveness has also "pushed" them to look for cheaper production locations. The graduation of the NIE in the mid 1980s so that they no longer receive GSP status has also been another push factor. Liberalisation of outward capital flows from the NIE was of course crucial to responding to these push factors. The outflow was most noticeable for Korea, increasing substantially from negligible amounts in the last few years.

The strategies of Japanese companies are becoming increasingly multinational and international, while those of the other East Asian economies are becoming more multinational. The latter trend arose out of necessity as well as the professionalisation and internationalisation of many family owned businesses.

The "pull" factors comprise of trade and investment deregulation which substantially improved the investment climate and conditions in the developing Asian countries. In the developing Asian countries, especially Thailand, Malaysia, Indonesia and China, there was a shift from inward to outward oriented development strategy accompanied by substantial deregulation in trade and investment regulations and restrictions. These developments improved the investment climate of these countries and along with cheap labour supply, enhanced the "pull" factor of these countries for direct foreign

investments.

Observations of these trends has led one business man to conclude about the inevitable process of integration due to market forces: "the pace of economic integration to date has been dictated by millions of decision being made every day by individual businesses and consumers, and I firmly believe that the process of Asia's economic integration will continue, regardless of political issues and regardless of the fate of formal inter-governmental cooperation." Therefore, regardless of the outcome of commitments to liberalise under multilateral and regional agreements, unilateral liberalisation in Indonesia and other economies will led to inevitable economic integration.

Indonesia's Commitment to Liberalisation Under the Multilateral Framework

The overall objective of liberalisation under the multilateral framework is of course to ensure an open and rules based trading system. It has always been maintained that for a small country in world trade such as Indonesia, the multilateral trading system is still the best compared with regional and bilateral trade arrangements. In the latter cases, there is an inevitable risk of facing a dominant player and being in a position of weak bargaining power. In such a situation there is no guarantee that there will be transparency, a clear set of rules, and an independent arbiter should there be a dispute. The multilateral framework offers all this and that liberalisation is undertaken on a non discriminatory MFN basis.

The ASEAN countries have not been major players in the GATT. Indonesia and Ma-

laysia became members in 1950 and 1957 respectively, and "succeeded" into the GATT as newly independent countries. Singapore became a GATT contracting party on its own right in 1973. The Philippines became a GATT contracting party in 1979 following the Tokyo Round and Thailand in 1982. Brunei Darussalam is still not a member of GATT. ASEAN members as a whole chose not to sign the codes on non tariff measures resulting from the Tokyo Round. Singapore signed four of the six codes, the Philippines three and Indonesia one. Neither Malaysia nor Thailand became signatories of any of the codes (Stephenson, 1993).

As with other developing countries, the Uruguay Round is the first round that ASEAN countries participated more actively. There has been some coordination in their participation and joint paper through the regular meetings of the ASEAN Geneva Committee. Market access offers were relatively significant with Singapore and Indonesia offering tariff binding and the others tariff reductions. All ASEAN countries pushed for the elimination of the MFA and the ASEAN-4 countries also pushed hard for agricultural liberalisation. The ASEAN countries have been active in the Textiles Surveillance Body (set up to oversee MFA) as well as International Textiles and Clothing Bureau (Association for developing country exporters of textiles and clothing).

However, Indonesia has made minimal commitment to reduce tariffs under its Uruguay Round market access offer in goods.³

³The analysis of the offer as obtained from the Ministry of Trade and Ministry of Industry is based on February 1994 information; however, there are only slight variations with the final offer.

Indonesia chose the option of across the board binding rather than to reduce tariffs. Indonesia offered to bind its tariff across the board at a rate of 40 per cent. The number of items proposed for binding amount to 8,877 tariff items or 94.6 per cent of total tariff lines (this accounts for 91.6 per cent of imports). Of the items offered for binding, 85 per cent are industrial items and the remainder being agriculture. In agriculture, out of the 1,341 items offered to be bound,

1,038 items are bound at 40 per cent or less and the remaining 303 items are bound at rates higher than 40 per cent as set out in the Uruguay Round Agreement on Agriculture (see Table 3).

The Indonesian government has also submitted a notification on the status and activities of BULOG (the State Logistics Agency through which many of the non tariff barriers on agriculture are administered) as a

Table 3

**SUMMARY OF INDONESIA'S MARKET
ACCESS COMMITMENT UNDER GATT 1994**

A. TARIFF BINDING	No. Tariff Lines		Import Value 1992	
	No.	%	US\$ Mill.	%
1. Total Manufactured Prod.	7,537	80.3	22,529	82.6
• old bindings	823	8.8	6,227	22.8
• new bindings	6,714	71.6	16,302	59.8
2. Total Agriculture (all binding)	1,341	14.3	2,464	9.0
3. Exceptions	504	5.4	2,285	8.4
TOTAL	9,382	100.0	27,279	100.0

B. AGRICULTURE

1. Tarification and binding for all products
2. Tariff reduction of 10% for every tariff line in 10 years
3. Elimination of local content requirements for milk
4. Minimum access for rice imports of 70,000 tons per year

C. ELIMINATION OF ALL NON TARIFF BARRIERS ON ALL INCLUDED BOUND TARIFF LINES

Non tariff barriers of 98% of tariff lines eliminated in 10 years

D. ELIMINATION OF SURCHARGES ON ALL INCLUDED BOUND TARIFF LINES

Surcharge from 5%-25% for 159 tariff lines to be eliminated in 10 years

Source: Ministry of Trade.

State Trading Enterprise for certain agricultural products. In the area of rice imports, Indonesia has also been able to use its Special and Differential Treatment as a developing country to replace the three per cent minimum market access requirement with a lump sum imports of 70,000 tons of rice.

Indonesia has proposed an exclusion list of 504 items (5.4 per cent of total tariff lines and 8.4 per cent of total value of imports) which are not bound. The products covered by these exceptions include mainly: certain chemical products; certain plastic items; explosives; foreign printed material; some rubber products; some agricultural tools; various types of machinery; some iron and steel products; some electronic items; automobiles and parts; aircraft; and firearms.

Exclusion is justified under Articles XX and XXI of the GATT on public morals and essential security interests. However, a number of selected sectors in manufacturing which have received high tariff protection and enjoy non tariff barriers are included in the exclusion list such as automotive, aircraft and some chemical industries. The exclusion of these items are justified based on the level of economic development of Indonesia as is allowed under paragraph 2 of GATT Article XVIII which allows "sufficient flexibility in ... tariff structure to be able to grant the tariff protection required for the establishment of a particular industry". It is also justified based on Article XVIII, paragraph 4(1) which allows "temporary" deviation from other Articles' of the Agreement if the economy of the member in question is characterised by "low standards of living and is in the early stages of development". The intention of the government is to lower protection as the level of develop-

ment increases. Most of the items excluded are steel and motor vehicles.

Indonesia's offer has been viewed by many, including the US as not a significant concession, since tariff binding was at 40 per cent while average (unweighted) tariffs are already around 20 per cent. The offer essentially means that few changes in tariff protection will be required. Other developing countries are binding at 25-35 per cent for around 89 per cent of their commodities (GATT Secretariat, 1994).

However, there are positive aspects. Broad binding could also be viewed positively in that it will prevent additional protection to new sectors, justified by various reasons such as infant industry, strategic industry and industrial policy, that will be protected by non tariff barriers and/or high tariffs. Most of the items on the exclusion list which have important non tariff barriers are steel and motor vehicles.

Indonesia has made a significant offer to remove non tariff barriers on items included in the across the board binding offer (i.e. not including products on the exclusion list) over the ten year transition period, that is by 2005. The Uruguay Round did not oblige developing countries to make a commitment on non tariff barriers beyond agriculture. Examples of non tariff barriers under agriculture that will be phased out over ten years is the local content requirements for dairy products and soybean cake (*tofu*). The local content requirement tied the import of milk and soybeans to the purchase of locally produced fresh milk and soybeans.

Indonesia also committed to the total elimination of tariff surcharges over the ten year phase out period which as discussed

above had been used to increase protection under the guise of offsetting dumping. Any new introduction of surcharges will be subject to a timetable for their elimination and follows GATT procedures regarding notification and transparency.

As for the services sector, Indonesia has offered to open up a number of services sector: telecommunication, financial, banking, and industrial services. While opening up of the sector for cross border provision of services, there remain limitations with regard to right of establishment and human resources. Essentially the requirement is for transparency and opening of those sectors; non discriminatory MFN treatment is not agreed upon yet in the overall services negotiation.

Other than its commitments on market access in industrial goods and agriculture, and opening up of the services sector, as a signatory to GATT 1994 and a member of the newly formed WTO, Indonesia will have to fulfill its obligations under the new issues of TRIMS (Trade Related Investment Measures) and TRIPS (Trade and Intellectual Property Right), as well as the various agreements to improve rules such as anti-dumping. Under TRIMS, since Indonesia does not have a policy of linking investment with trade balancing requirements, its obligation will be to report local content requirements, such as with regard to automotive and milk, and abolish them within five years. As for TRIPS, Indonesia will have to introduce several new laws as well as ensure good faith effort in implementing the existing laws and regulations, such as the Copyright Law introduced in 1990... On rules Indonesia will have to think about the need for an Anti-Dumping Law.

Regional Agreements and Cooperation

AFTA: Indonesia's Commitment and Implementation Problems

After almost 25 years of negligible development in ASEAN economic cooperation, intra-ASEAN economic cooperation got a boost in 1992 at the fourth ASEAN Summit with the creation of the ASEAN Free Trade Area (AFTA). Free trade areas are created to create a bigger market and thus take advantage of economies of scale and sharing of resources. This is also the aim of AFTA although the more immediate aim is increasing ASEAN's competitiveness and attractiveness as a production base selling⁴ to the world market by eliminating intra-regional tariffs and non tariff barriers. The idea of ASEAN as a market holds little relevance for now given the small size of the market due to the low purchasing power. However, in 10 to 15 years time it will also be an important consideration. It has also been argued that AFTA can be seen as a "training ground" for the ASEAN economies before participating more fully in the wider regional and multi-lateral liberalisation exercise.

One of the push factors leading to the formation of AFTA was perceived competition from other regional integration schemes, notably NAFTA and EC.⁴ It should be emphasised that given the smallness of the ASEAN market, AFTA is not motivated to promote intra-ASEAN trade as is the case with the European economic integration schemes. It is also well-known that

⁴Especially the widening of EC to include Eastern European countries or the preferential treatment as well as geographical proximity of Eastern Europe, Mediterranean countries and Turkey, which would have the low cost labour.

AFTA was formed in the post Cold War concern that reduced security considerations will dilute ASEAN so that a new glue -- economic cooperation -- is needed to ensure the viability of ASEAN as an entity.

The main vehicle in achieving this objective is the Common Effective Preferential Tariff (CEPT) scheme under which all the ASEAN countries agreed to reduce intra-ASEAN tariffs to 0-5 per cent and eliminate non tariff barriers over a 15 year period beginning January 1, 1993. All manufactured products, including capital goods and processed agricultural products are originally covered by the CEPT scheme. Unprocessed agricultural products are not covered under CEPT. The CEPT scheme has set a local content requirement of 40 per cent (single country and cumulative ASEAN content).

Those who have followed the progress of ASEAN recognise that AFTA is a breakthrough in intra-ASEAN economic cooperation, since just a few years ago the word free trade alone was considered anathema. There is some positive progress on the realisation of AFTA. All the ASEAN member countries agreed to implement the CEPT program of tariff reductions on January 1, 1994 despite the three year flexibility in starting date and countries also unilaterally agreed to offer a large number of processed agricultural products to be included in the CEPT scheme. Even though the lists of included and excluded items by each country are available, a detailed study is needed to understand whether relevant items have been excluded. This problem has of course beleaguered past intra-ASEAN economic cooperation and whether the relevant items are not on the exclusion list will be an important barometer of ASEAN countries' commitments to AF-

TA.

Indonesia's commitment under AFTA indicates that it has the second highest number of items in the inclusion list after Malaysia. The inclusion list amounts to 78 per cent of total tariff lines, out of which 38 per cent (highest number out of the other ASEAN countries) are on the fast track. Indonesia has also lowered tariffs on 1,941 out of the 7,355 items on the inclusion list as of 1st January 1994. Indonesia has the highest exclusion list, even though most are categorised as "temporary". It is still difficult to evaluate the significance of Indonesia's offer without having details on the products excluded, included and on the fast track. The "usual suspects" are likely to be on the exclusion list, much like Indonesia's commitment under the GATT.

The ratification of the WTO and given that the transition period of GATT 1994 is ten years, and the rapid developments in APEC have provided a catalyst for change in AFTA as well. At the September 1994 AEM (ASEAN Economic Ministers) Meeting, several important changes were made: the timetable to reach AFTA was accelerated to ten years (i.e. by 2003); the scope of CEPT was widened to include unprocessed agriculture products; tightening the discipline in the use of exclusion list by mandating that in five years all goods on the temporary exclusion list must be included under CEPT; and finally the possibility of inclusion of services under AFTA was mentioned.

Nevertheless, many analysts and private sector actors have pointed out various inherent weaknesses that may render AFTA to live up to its uncomplimentary acronyms of Agree First and Talk After or Another Futile Trade Area. Given the progress in

trade liberalisation and the development of other more encompassing free trade areas, AFTA is seen too much as a free trade agreement of the past rather than the future. Some of the weaknesses in the implementation of AFTA have already been addressed in the recent changes made at the September AEM Meeting.

However, the issue that AFTA has to date only addressed tariffs whereas the important barriers to trade are non tariff remains. Under the CEPT agreement, non tariff barriers are to be subjected to standstill and rollback (over a five year period) requirement once the product is introduced into the CEPT program. There is as yet no clear indication or schedule with regard to the phasing out of non tariff barriers. Furthermore the implementation of AFTA is likely to be mired by administrative problems with regard to matching tariff lines and calculation as well as recognition of the local content requirements.

Other than addressing the above weaknesses, there could be vast improvements made in trade and investment facilitation measures such as harmonisation of customs and standards, investment coordination and cooperation, and facilitation of flows of human resources between ASEAN countries are other aspects of deepening that will truly go towards freeing up movement of goods, services capital and people -- and a free trade area of the future. A strong political commitment will be needed to deepen the commitment to liberalisation and more importantly its timely implementation.

Growth Triangles

There are at present many geometric configurations of Asian growth centers: from

triangles, polygons to corridors. However, the only one that can be said to be established and well developed is the Greater South China (GSC) sub-regional zone. The others are in various stages of development, conception and planning.

The concept and theory behind growth centres are not particularly new. They draw from international trade and locational theory. Sub-regional economic zones (SREZ) transcend political boundaries as with other integration schemes, but are different because it involves parts of different countries which are in geographically contiguous areas. These zones come about with or without government initiatives, and with or without formal institutional structures.

The rationale of such zones are economic complementarity of geographically proximate areas and gain from resource pooling and economies of scale, with production often being targeted at the global market. Complementarity arises due to differences in level of development and in resource endowments. Of course economic complementarity alone is not sufficient, it must also make business sense to develop these linkages. The governments of the different countries act as facilitators to remove political, policy and physical barriers so that there can be smooth flow of goods, factors of production, and services. The removal or reduction of barriers to these movements occurs when a SREZ is established and investments will flow to take advantage of the complementarities. Often the governments will also have to step in to provide physical infrastructure and provide investment incentives.

A second important driving force behind SREZs is geographical proximity itself. For instance, Singapore firms have relocated to

Johor since the early 1980s and more recently in Batam. The role of Hong Kong in China's development is also well-known. Geographical proximity is important when there is a need to minimise transactions and information costs. Given the need to compete with shorter lead times and just in time inventory and delivery, geographical proximity becomes important. In the area of services geographical proximity is even more important because it necessitates movement of people providing the services. Proximity to supporting services such as technical assistance, training, telecommunications, port facilities and access to international networks provided by city states of Singapore and Hong Kong are obviously important for location of investments in Johor, Batam and Guangdong. Furthermore, geographical proximate areas often, not always, also share the same language, culture and have historical ties.

Obviously complementarity and geographical proximity alone will not drive the formation of these SREZs without there being the government and regulatory framework to facilitate it. Dramatic changes in political developments and policy orientation have occurred in the East Asian region that are important in the impetus to the formation of these SREZs. The opening up of China in the early 1980s and the establishment of Special Economic Zones and the outward orientation of Indonesian economic policy since 1986 in the aftermath of the fall in oil prices, led to the conducive environment and investment incentives to the realisation of these SREZs.

Development of infrastructure by the government is also an important factor in the creation of SREZs and the realisation of

the benefits of SREZs. Assuming the government realises the benefits from SREZs to the economy, then it will invest in infrastructure development to facilitate the creation of SREZs. After all the advantages of geographical proximity can only be realised if there is a well established transportation and telecommunications network. The government can also play a role in developing industrial infrastructure, tourism parks, and public utilities. In many cases the private sector itself and multilateral and Japanese aid agencies will also get involved.

Governments from different countries can also cooperate in infrastructure development and joint development of natural resources so that there will be minimum disputes over ownership and utilisation of a common resources such as a major resources and exploit the economies of agglomeration e.g. Mekong. In such a case complementarity is not as important a motivating force.

Finally, the attraction of SREZs are the complementarity of factors and not a larger market as in the case of free trade areas. However, since one category of SREZs are to take advantage of complementarities and geographical proximity to be more competitive internationally, access to the global market is crucial. Thus there needs to be a central node connected to an international network within SREZs that are set up as production platforms such as Singapore is to the Singapore-Johor-Riau growth triangle.

APEC (Asia Pacific Economic Cooperation)

APEC was founded in 1989 and by 1991 the membership had gone up to 15. At present there are 18 members of APEC: US, Canada, Japan, Australia, New Zealand,

ASEAN-6, South Korea, the three Chinas: Peoples Republic of China, Chinese Taipei and Hong Kong, Papua New Guinea, Mexico and Chile.

The formation of APEC was spurred by uncertainties in the outcome of the Uruguay Round negotiations and worries about the resurgence of regionalism with the creation of the EC single market. This is the reason why APEC has often been termed as providing an "insurance policy" to its members. The idea of APEC started off mainly as a consultative forum to discuss issues with regard to trade and investment cooperation in the region which are of common interest to the member economies. Up to the Seattle meeting last year, the progress in APEC has been slow with countries wanting a slow and gradual pace with no institutionalisation. The creation of a secretariat in 1992 was a breakthrough and met with a lot of resistance.

However, since the Seattle meeting and endorsement by the Leaders of APEC provided signals of a stronger political will to support APEC, there has been much progress. The strong support from the US which culminated in a Heads of State Meeting at Blake Island, is believed to have provided the breakthrough with the deadlock with EC that was needed to complete the Uruguay Round of negotiations.

The Bogor Declaration announced on the November 15, 1994 emphasized the Leaders commitment to achieving trade and investment liberalisation by 2020, with developed countries reaching the goal by 2010 and developing countries by 2020. Furthermore, there is an agreement on standstill on new protection. The commitment cannot be considered a binding one since there is no legal

document accompanying the declaration. The statement is one of political intent and will, and since it comes from a group of economies which account for 40 per cent of world trade, it still sends a very important message about the seriousness of this region about liberalisation.

What does this all mean? To the optimist, the fact that the Leaders met and talked about the issues and came up with such a political intent is already a remarkable achievement. Furthermore if one is of the view that what is important in APEC is the process rather than form, then this statement is an important milestone. If we believe in the commitment voiced by the Leaders, then there is no turning back on the process of liberalisation.

At the other extreme, there are those who feel that the non binding commitments made under APEC are ineffective and at best that the APEC meetings are a talk shop. The truth probably lies somewhere in between and to keep the APEC process in perspective, one must see it as an evolutionary process which can still develop into more concrete programs, shortening of time frames and so on in response to changing times and developments in the APEC countries themselves. What has been achieved to date is significant when viewed in that light.

Of course the basic difficulty of the trade and investment liberalisation process still lies in the divided opinions about what liberalisation means. At the heart of the debate that emerged due to the recommendations of the APEC EPG (Eminent Persons Group) report is whether liberalisation should be on a non discriminatory/unconditional or reciprocal/conditional basis to non-APEC members. The East Asian economies have

undertaken unilateral liberalisation in their own interest to adjust and reform their economies so that they can become more competitive. They would like to continue on that basis and are against the conditional basis of liberalisation, and especially against the idea of creation of a free trade area. One facet of their argument is that APEC is still important to provide confidence in undertaking unilateral liberalisation if other countries in the region are doing likewise.

Whereas some of the developed countries, such as the US, Canada and Australia, are in favour of conditional liberalisation because they do not want Europeans to have a "free ride". Reciprocity is a way to ensure that Europe will also liberalise. Japan is in a particularly difficult situation because it does not as yet support full liberalisation domestically and yet it will be the Chair of APEC next year. One can only hope that the emphasis on regional economic cooperation that is not inward looking, that is consistent with GATT/WTO, and in a manner that will encourage and strengthen trade and investment liberalisation in the world as a whole will be translated into non discriminatory liberalisation. Otherwise the wrong message will be sent to Europe and we could see the feared division of the world into regional blocs.

President Clinton has called for a blue print to realise trade and investment liberalisation by the next APEC meeting. This is an ambitious goal given that even on the basic issue of how the liberalisation should occur vis-à-vis non APEC members is still a contentious issue. Other more difficult issues in coming up with a blue print relate to resolving very difficult issues. What is the scope of trade and investment liberalisation? Is the

target zero tariffs? Are non tariff barriers included? What are the exceptions if any to be made on the promise to undertake standstill on new protection? Which sectors are to be included in liberalisation? Goods sectors alone? Are agriculture and services included? Will liberalisation take place sector by sector or simultaneously? What are the acceptable exceptions to the liberalisation?

It would be too much pressure on the APEC process to expect final answers to these very difficult questions. At best we could hope that the next APEC meeting would be a clear exposition of the various options to undertake liberalisation so that leaders are in a better position to decide. Here are some of the options.

First, there is the pragmatic suggestion that countries take their existing commitments in the Uruguay Round. In the first instance APEC economies should implement their WTO commitments and then undertake a unilateral or regional effort to accelerate the existing commitments. For instance, APEC economies can offer to add another additional percentage, say 10 per cent, to their offered tariff reductions under the Uruguay Round market access commitments. The advantage of this approach is that it will minimise the need to negotiate and can clearly be seen as supporting the multilateral track to liberalise. Furthermore, since the APEC economies comprise an important and large majority within WTO, it can form a caucus to ensure that the WTO commitments are implemented and furthermore be the catalyst for accelerating existing commitments. That is, APEC can be the caucus to ensure the creation of an open and rules based trading system.

Second, to clearly define the scope of the liberalisation in stages, either by instruments of protection (tariffs and then non tariff barriers) or by sectors. After all integration in Europe started by sector also. As an example, one area that developing countries in APEC will see great advantage in will be if the US commits itself to an accelerated reduction of textile quotas under the phase out of quotas agreed under the Textile Agreement. At the bare minimum if the US commits itself to implementing the textile agreement itself, that is not resorting to increased use of safeguard measures, anti dumping and unduly onerous circumvention rules, and also not phase out the important items in the last stage of the 10 year phase out period, this will already be an important signal for all the developing Asian exporters of textiles and garments in APEC.

In order to proceed from here on in the APEC liberalisation process, much thought needs to be put into the various options and modalities, weighing the different economic, political-economic, and other conditions of the various countries -- as well as what has been decided in GATT 1994. An important caveat to bear in mind, and in line with the thought that APEC is an evolutionary process, is the principle of pragmatism where the primary focus is result rather than form.

Other than trade liberalisation, trade and investment facilitation measures that will enhance the flow of trade and investment have been recommended. Trade facilitation measures include harmonisation of customs procedures and standards. In line with trade facilitation, the EPG has also recommended APEC look into preventing the misuse of anti dumping measures for protectionist purposes and create an APEC dispute settlement or mediation mechanism be set up.

Whereas to facilitate investment a non binding APEC concord on investment principle is envisaged as a first step. The main principles underlying such an agreement are: transparency, non discrimination, national treatment and right of establishment. The concord will be non binding and voluntary, that is APEC members are free to sign on only to the parts that they are comfortable with, but with the aim of eventually signing on to all parts.

Finally, under development cooperation there has been some progress on human resources and small scale enterprise development, although the work program is not clear as yet.

Conclusions

Given the above analysis and the changing world and regional environment that Indonesia faces, what is the appropriate approach for Indonesia in approaching economic opening up? While all liberalisation efforts have the broad efficiency goal, each approach to liberalisation has additional objectives and different factors impinging on them. Therefore to achieve liberalisation in trade and investment, it is not an either or choice. The approach to liberalisation must necessarily be multi track. All countries, including Indonesia, should implement its WTO commitments and participate actively to ensure the realisation of the principles of the WTO so that an open and rules based trading system prevails. Unilateral liberalisation efforts should also be continued, especially couched in a medium and longer term time frame. Differences in approach will arise however with regard to regional efforts to liberalise.

With regard to AFTA, the most important issue facing AFTA at present is how to answer the above criticism about the lack of progress in AFTA. If AFTA is to remain relevant in economic terms and not just there for the sake of the "glue that keeps ASEAN together", then it must move forward and respond quickly and in a pragmatic way to the changing world. This will mean many things that were discussed above such as speeding up the transition period, implementing as quickly as possible the present agreement on tariff reductions and removal of non tariff barriers, and to move ahead to the new issues that would make AFTA an attractive pull for the private sector.

Another more fundamental problem that AFTA faces has more to do with its relevancy given a changing external environment as well as the internal changes occurring in each of the ASEAN countries. The most important challenge is the position of ASEAN *vis-à-vis* APEC and the multilateral trading system. Here are some considerations. There are some who are pessimistic about AFTA. Stephenson (1994) points out that "with a successful trade agreement under GATT, and with the prospect of follow-on GATT negotiations in the late 1990s, the two forms of regionalism -- the closed regionalism represented by AFTA and the more open regionalism represented by APEC -- will become less attractive for ASEAN members. However, both will continue to be pursued, more for foreign policy and strategic reasons than for economic reasons".

Here closed regionalism is taken to mean reductions in trade barriers that are given to the members of the regional agreement and not on an MFN basis. Whereas open regionalism is generally understood to be reductions in the trade barriers that are de-

cided at the regional level, but given at an unconditional MFN basis and based on reciprocity. Thus there is the view that Indonesia and ASEAN should first and foremost be focusing on their effective participation in the GATT and implementation of the Uruguay Round, rather than on "narrow" liberalisation under AFTA.

Another prevailing view is that AFTA can still fulfill a useful purpose by providing a "training ground" for a wider liberalisation exercise and that there are gains in competitiveness for each ASEAN country by becoming an ASEAN production centre. However, there should be recognition that for AFTA to continue to be relevant, it should not be overtaken by liberalisation under multilateral, other regional, and most importantly unilateral liberalisation in each of the ASEAN countries.

ASEAN is nevertheless still useful and relevant in the wider scheme of things, and external economic relations has been one of the successes achieved by ASEAN. Therefore, ASEAN can form a caucus within these larger organisations to pursue their common interests. In the case of APEC, for instance, it would be to push for non discriminatory trade liberalisation rather than the conditional trade liberalisation or institutionalisation of APEC that has been recommended. In the multilateral trading system there will be a lot of common goals such as the accelerating the MFA phase out, ensuring discipline in use of anti dumping and dealing with the new trade related issues such as trade and the environment, trade and labour standards, and trade and competition policy.

What about liberalisation approaches under APEC? Out of the different options outlined above, for Indonesia the optimal

approach is still one of open regionalism. That is whatever the liberalisation modus -- implementation of WTO, acceleration of WTO commitments, concerted regional liberalisation by sector or issue -- should be on a non discriminatory MFN basis. Minimisation of distortions and maximising the gains from liberalisation should be uppermost in the minds of all countries, including Indonesia.

Another important consideration, whether in the APEC or AFTA context, is to recognise that reduction of cross border trade and investment barriers is not the only means to facilitate intra-regional trade and investment. Trade and investment facilitation measures such as customs harmonisation, regional agreement on use of anti dumping, and investment principles, can go a long way in facilitating such flows. In fact because such measures usually begin in a benign manner of agreeing upon universal principles such as transparency and non discrimination in treatment, and often are not binding or mandatory, they are easily agreed upon compared with achieving agreement on reduction of cross border barriers. Furthermore, as cross border measures are more apparent when a country undertakes protection measures and given that there are bindings and commitments to reduce barriers under WTO and other agreements, it is likely that the use of measures such as anti dumping duties will increase as "disguised protection". Therefore, it is equally important to also achieve progress on facilitation measures, and to give it on a non discriminatory MFN basis.

Therefore, Indonesia should adopt a multi track approach and it will be important to bear the parametres outlined above. Several options are outlined above, especial-

ly in the choice of approach for regionalism. It will be important for Indonesia to keep in mind the ideal of MFN based liberalisation and the elements of open regionalism. Furthermore, it will be crucial for Indonesia to ensure that each track in its multi track approach is consistent with each other and fits into a medium and long-term framework which is in line with its overall development policy.

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Economic Reform and Deregulation in Indonesia*

Thee Kian Wie

“While the present economic situation requires that painful adjustments be made, there is no reason to believe that the short-term difficulties will not be overcome. The most important task facing Indonesian policy-makers now is to ensure that the short-term adjustment policies chosen are consistent with the maintenance of high and sustained growth in the longer term”. (McCawley, April 1983: 1-2)

Economic Reforms and Deregulation in the 1980s: A Retrospect

The Response to the End of the Oil Boom

SINCE the sharp deterioration in Indonesia's terms of trade as a result of a decline in the price of oil in 1982 and an even steeper decline in 1986, and the steep depreciation of the US dollar in 1985, the Indonesian government since 1983 introduced a series of economic reforms and deregulation measures, which were aimed at restoring macro-economic stability and restructuring the economy to reduce its large

dependence on oil as the major source of export earnings and government revenues and to stimulate a more efficient private sector which could replace the oil sector as the major engine of growth and as the major source of non-oil exports.

While the Indonesian government since early 1983 responded with sensible stabilisation policies to the first decline in the price of oil in 1982 (including tight fiscal and monetary policies, and a sharp *rupiah* devaluation), it proceeded more slowly with structural adjustment policies, although even during this period it introduced a financial deregulation package which only a few years earlier had seemed unlikely. It was only with the sharp depreciation of the US dollar in 1985 which greatly increased Indonesia's external debt, and another steeper decline in the price of oil in 1986, that the Indonesian government moved in a more decisive way with in-

*Paper presented at Australia-Indonesia Bilateral Conference on “Diverse Culture, Converging Interests”, organised by the Institute for Asia and the Pacific (RIAP), University of Sydney, and the Centre for Strategic and International Studies (CSIS), Jakarta, and held in Indonesia (Surabaya) on July 3-5, 1994.

roducing several needed policy reforms. The most important policy reforms included several deregulation measures to improve the investment climate for domestic and foreign investors, and improvements in the highly protectionist trade regime aimed at reducing its considerable "anti-export bias". The determination of the Indonesian government to improve the investment climate and eliminate some of the major sources of Indonesia's "high-cost economy" was also evident in 1985, when it replaced the inefficient Customs Service by a Swiss firm, *Societe General de Surveillance* (SGS), which was henceforth entrusted with inspecting import products and assessing the import duties and surcharges on these products.

In addition to the reduction in the "anti-export bias" of the trade regime, the Indonesian government since 1986 has also been able to maintain the real effective exchange rate competitive by keeping inflationary pressures under control (i.e. by making every effort to keep inflation to a single digit rate) and by steadily depreciating the *rupiah* against the US dollar.

The response of the Indonesian economy to these various policy reforms turned out to be quite gratifying. Economic growth, which had been growing rather modestly at an average annual rate of 5.0 per cent during the period 1983-1987, began to grow faster by the late 1980s at an average annual rate of 6.6 per cent during the period 1988-1992, while per capita GDP rose at an average annual rate of 4.4 per cent during this latter period (Asian Development Bank 1993: 258-259). In addition, the policy reforms were quite successful in raising non-oil exports, (notably manufactured exports), which rose from US\$5.9 billion in 1984/1985 to US\$24.8 billion in 1992/1993, while manufactured ex-

ports during this period rose from US\$4.1 billion in 1984/1985 to US\$20.9 billion in 1992/1993 (*Nota Keuangan*, 1994/1995: 302-303, 309-310). As a result, the share of non-oil exports in total exports rose from 30 per cent in 1984/1985 to 70 per cent in 1992/1993, while the share of manufactured exports in total exports during this same period rose from 20 per cent in 1984/1985 to 59 per cent in 1992 (*Nota Keuangan*, 1994/1995: 302-303; 309-310).

The policy reforms were not only effective in raising economic growth, but also, more remarkably, in reducing the incidence of absolute poverty. While in the early 1970s around 60 per cent of Indonesia's population (about 70 million people) were living in absolute poverty, by 1990 the number of poor people had dropped to about 15 per cent of the population (around 27 million) (World Bank, 1993: 4). Hence, even during a period of severe external shocks and quite painful structural adjustment measures, Indonesia was able to steadily reduce the incidence of absolute poverty. In fact, the 1990 World Development Report on poverty noted that among the various developing countries in the 1970s and 1980s Indonesia had the highest (World Bank, 1990: 45). This success was not only due to adequate government spending on agricultural and rural development (where most of the poor were working out living) and social development (expansion of primary and secondary education and health facilities) during the oil boom years of the 1970s, but also to the shift from a capital-intensive, inward-looking pattern to a more outward-looking, labour-intensive pattern of development since the policy reforms of the mid and late 1980s.

In hindsight one can only marvel at the willingness and ability of the Indonesian

government to shift gears and adopt painful economic reforms. That severe external shocks in resource-rich countries do not automatically lead to policy reforms which facilitate the adjustment to the end of a resource boom is reflected by the interesting contrast with Nigeria which, like Indonesia, is an oil-exporting country with a large population highly dependent on its earnings from oil. Unlike Indonesia, however, the Nigerian government in the early 1980s did not introduce adequate economic reforms which were conducive to a successful adjustment to a post-oil boom era. For instance, unlike Indonesia which, based on its balanced budget law adopted in the late 1960s, was able to pursue a tight fiscal policy after the end of the oil boom, Nigeria was less able to introduce a greater fiscal discipline. Moreover, while the Indonesian government soon after the oil boom devalued the *rupiah* to restore equilibrium, the Nigerian government declined to devalue the *naira*, but instead opted to introduce a complicated import licensing system (Pinto, 1987: 419-444). The turn-about in Indonesia's economic policies since the mid-1980s is particularly evident with the shift in industrial and trade policies from an inward-looking, import-substituting industrial strategy to a more outward-looking, export-oriented pattern in the late 1980s. Since it started its process of industrial development in the late 1960s Indonesia, buttressed by a highly protectionist trade regime, rapid growth of the economy due to the resource booms of the 1970s and a commensurate rise in the purchasing power of the population, and pervasive government intervention, had pursued a highly inward-looking, import-substituting path of industrialisation (Ariff & Hill, 1985: 17). However, once the first or "easy" phase of import substitution was completed by the late

1970s, Indonesia's policy-makers, instead of shifting to an export-oriented path of industrialisation, as had been the case with the Asian newly-industrialising economies (NIEs), since the late 1970s decided to push the process of import-substituting industrialisation one stage further by promoting the development of various upstream industries, particularly the basic, resource-processing industries (such as the steel and aluminium industries), engineering goods industries, and parts and components industries to supply the downstream, assembling industries which had developed during the first phase of import-substituting industrialisation. This process of second-stage import substitution might have well run its course, had the end of the oil boom in the early 1980s not put an end to this ambitious industrialisation.

The Role of the World Bank

In 1981 the World Bank conducted an extensive study of Indonesia's industrial development and trade strategy which turned out to be highly critical of the industrial and trade policies pursued by the Indonesian government (World Bank, 1981). The World Bank was in particular critical of: the *incentive structure* and the *trade regime* which were very complex and uneven, resulting in the development of various inefficient, capital-intensive industries in which Indonesia did not yet have a comparative advantage; the highly restrictive and opaque *regulatory environment* and *administrative controls* which had a substantial disincentive effect on domestic and foreign-controlled firms alike and which tended to hamper the expansion of industrial output; the *financial policies* affecting the industrial sector which

had resulted in a larger allocation of subsidised credits to large, state-owned and privately-owned capital-and energy-intensive industries to the detriment of smaller, privately-owned, more labour-intensive industries; and the *foreign investment policy* which since 1974 had become increasingly restrictive and, as a result, had deterred the inflow of new foreign direct investment in the manufacturing sector, particularly in those industries in which Indonesia had a strong comparative advantage.

As the above array of industrial and trade policies was very unlikely to improve the international competitiveness of Indonesia's manufacturing industries, the World Bank suggested that the Indonesian government would have to introduce several policy reforms with regard to the incentive structure and trade regime, the regulatory framework and administrative controls, and the financial and foreign investment policies in order to improve the overall investment climate for manufacturing firms, and to encourage the growth of more efficient manufacturing firms.

Not surprisingly, this highly critical, though internal World Bank report was not well received by the Indonesian government. In fact, even after the World Bank had amended some of its policy recommendations, the Indonesian government declined to act on the findings and recommendations of this World Bank study. However, what is so remarkable about this 1981 World Bank report is the fact that the end of the oil boom in the following year (i.e. 1982) led the Indonesian government in the ensuing years to adopt the very policy reforms and deregulation measures suggested by the World Bank which it had rejected outright only a few years ago. While some diehard adherents of

the highly inward-looking, so called *structuralist* approach to industrialisation may have regretted this shift in industrial and trade strategies, the economic efficiency-minded and more market-oriented economic technocrats responded with alacrity to the turn in Indonesia's economic fortunes by pushing through a successive series of highly effective economic reform and deregulation packages in the course of the 1980s.

The fact, however, that Indonesia's economic technocrats were able to act on the policy advice of the World Bank in regard to the reform of trade and industrial policies could be attributed to the unique position which the World Bank has been occupying in Indonesia's political economy since the early days of the New Order government. As the major source of soft loans provided to the Indonesian government through the Consultative Group on Indonesia (CGI) (which was formerly the Inter-Governmental Group on Indonesia or IGGI),¹ the World Bank was and is playing an important role in regard to the international aid program to Indonesia. Moreover, each year the World Bank prepares an annual report on the state and progress of the Indonesian economy which provides the basis for the justification to provide a specified amount of aid to Indonesia through the CGI (before 1992 the IGGI). Naturally, to ensure that the aid would be forthcoming, the Indonesian government either tacitly or openly had to and

¹Following the termination of Dutch aid to Indonesia in March 1992, the Indonesian government disbanded the IGGI which since the late 1960s had been chaired by the Netherlands. At the request of the Indonesian government, the World Bank in mid 1992 agreed to chair a revamped aid consortium called the Consultative Group on Indonesia (CGI) which gave the World Bank even leverage in regard to the aid program to Indonesia.

will continue to have to heed the policy advice provided by the World Bank. In a way, however, the Bank's influence could also be attributed to the Indonesian government's self-imposed discipline of a balanced budget which required it to turn to the IGGI to supply the shortfall between government revenues and government expenditures on development by foreign aid.

During the heady days of the second oil boom of the late 1970s and early 1980s the Indonesian government felt strong enough to disregard the policy advice of the World Bank, particularly with regard to its industrial strategy of ambitious and comprehensive import substitution. Once the oil boom was over, however, the Indonesian government became more amenable to the World Bank's policy advice with regard to the acquired stabilisation and structural adjustment measures. In fact, in a rather revealing display of breast-beating, the World Bank itself attributed the impressive growth and restructuring of Indonesian industry after the end of the oil boom, amongst other things, to the Bank's sound analysis, advice, and influence (sic) (World Bank, 1992: 43).

To some extent, however, the reliance of Indonesia's economic policy-makers on the World Bank's policy guidance as well as policy advice of some foreign research and consulting agencies, such as the Harvard Institute of International Development (HIID) at the Ministry of Finance, or foreign experts attached to the Jakarta offices of the UN (United Nations) Specialised Agencies, such as the ILO (International Labour Organisation) team on Employment Generation at the Ministry of Manpower, can be attributed to the relatively weak domestic research capacity or lack of political influence of both government and private policy-research in-

stitutes (Thee, 1991; Bhattacharya & Pangestu, 1993: 40). Moreover, thus far the Indonesian government has not yet considered it necessary to establish an academically strong, well-funded, and politically influential policy-research institute along the lines of the Korea Development Institute (KDI) or the Thailand Development Research Institute (TDRI).

Continuing the Process of Policy Reforms

The Need for Continuing the Process of Policy Reforms

While the Indonesian government has been rightly praised for its record in combining rapid growth with a steady reduction in the incidence of absolute poverty and in carrying out significant structural reforms to diversify the economy away from its high dependence on oil by developing a more efficient national economy, several Indonesian economists continue to express concern about the country's ability to sustain its rapid export-led growth. This concern stems from, amongst others, Indonesia's high foreign debt (now rapidly approaching US\$100 billion) and its attendant high debt-service payments and its continuing inability to mobilise adequate domestic resources to finance its own development; the apparent unwillingness to move ahead more decisively with further policy reforms in areas controlled by entrenched interests (e.g. the automotive industry); the continuing opaqueness and lack of transparency of several aspects of the regulatory framework and the attendant controls and quantitative restrictions governing certain areas of international and domestic trade; the perceived collusion between high-level bureaucrats and big tycoons

which provides ample opportunities for highly profitable rent-seeking activities and restrictive business practices; and, more recently, the sluggish growth of non-oil export, particularly the labour-intensive manufactured exports, such as textiles and garments (in which Indonesia was supposed to have a strong comparative advantage), thus raising concern that Indonesia's international competitiveness is being rapidly eroded by more efficient firms in lower-wage countries, such as China, India, and Vietnam.

In no country has the process of structural adjustment and deregulation been smooth due to opposition from powerful bureaucrats and entrenched business interests who used to profit from the prevailing system. Moreover, since the early days of the New Order government the economic technocrats never had a monopoly on economic policy-making, as they had, as Glassburner has rightfully observed, to share their role with both military and civilian rivals (Glassburner, 1978: 33). In addition, these technocrats had to face various centres of economic power, either under military control or under the control of civilians with powerful political connections.

Despite these qualifications, however, the primacy of the economic technocrats in pursuing prudent macro-economic policies and introducing appropriate policy reforms has thus far been assured due to the confidence and strong support they received from the President, particularly since the spectacular default of the state-owned oil company Pertamina in 1975 and, more recently, since the policy reforms these technocrats recommended to the President following the end of the oil boom enabled the economy to recover and generate non-oil

exports at a rapid rate. In fact, even after the apparent ascendancy of the so-called "technologists" (*teknolog*) under the dynamic leadership of B.J. Habibie, the Minister of State for Research and Technology, in the present Sixth Development Cabinet (1993-1998), with their emphasis on large-scale, capital-and-human skill-intensive, strategic (including high-technology) industries (McLeod, 1993: 4-5), it appears unlikely that prudent macro-economic policies will ever be thrown overboard. Given the continuing reliance on soft loans provided by the World Bank-led CGI (Consultative Group on Indonesia) and the tacit terms attached to this official aid, the scope for indulging in ambitious, costly industrial projects will ultimately be determined by the extent to which such ventures would threaten macro-economic stability and Indonesia's international credit-rating.

Despite some concern that the pace of economic reforms and deregulation has been faltering, the two most recent deregulation measures of June 1994 indicate that the Indonesian government, keenly aware of strong international competition in attracting foreign direct investment and in penetrating export markets, will have no choice but to continue with its policy reforms, even though the scope and effectiveness of individual reform packages may sometimes be inadequate. That the Indonesian government is prepared to shed some long-held tenets, for instance regarding "national control" over foreign-controlled joint ventures through the transfer of foreign-held majority equity shares to their local partner(s) or the Indonesian public after a specified period of time (i.e., 20 years after the start of commercial production), is reflected by the abandonment of this requirement in its latest for-

eign investment deregulation package of June 1994. This meant that, henceforth, foreign investors could keep their majority position for the duration of their project. By abandoning the above divestment rule, the Indonesian government has gone a long way towards satisfying a longstanding complaint by foreign, particularly Western, investors who often argued that the divestment rule, was deterring a number of bonafide investors, intent on establishing a long-term presence in the country, from investing in Indonesia. It was also argued that the above divestment rule tended to attract a number of foreign investors who were only interested in investing in quick-yielding projects. By abandoning the above divestment rule the Indonesian government also brought its foreign investment policy more in line with the more liberal foreign investment policies of its ASEAN neighbours, notably Malaysia and Thailand. On the other hand, however, the confusion and contradictory statements by some cabinet ministers regarding the opening up the mass media to foreign investment in the latest deregulation package and the subsequent reversal of this provision did indicate a serious lack of proper preparation and coordination between the various government agencies regarding the most appropriate formulation of an important policy reform which, as the *Asian Wallstreet Journal* put it, has resulted in a "public relations disaster" which must have lessened the enthusiasm of prospective foreign investors to invest in Indonesia.

Although the restrictive and highly protective import trade regime has gradually but steadily been dismantled over the years by the successive series of deregulation packages, including the latest package of 27 June 1994, and thus led to a steady reduction

of its "anti-export bias", further deregulation measures need to be taken before the bias against exports is entirely eliminated. After all, even after the decisive shift towards more export-oriented policies in May 1986 with the introduction of a duty exemption and drawback scheme, the average effective rate of protection enjoyed by import-competing manufacturing industries in 1990 was still a relatively high i.e., 35 per cent, while that of the export-oriented industries was only -1.0 per cent, thus indicating the continuing prevalence of a bias against exports (Bhattacharya & Pangestu, 1993: 22). This continuing bias against exports is also reflected even in one of the most successful export-oriented industries, namely the textile and garment industries, as domestic-market oriented textile firms in 1989 were enjoying a very high 109.4 per cent rate of effective protection, whereas that of the export-oriented firms was only -2.0 per cent. A similar situation prevailed in the garment industry, where the effective rate of protection for domestic market-oriented firms was an equally high 101.4 per cent, while that of export-oriented firms was only -1.3 per cent (Wymenga, 1991: 140).

The Need for Competition Policies

While sound macro-economic policies now seem to be firmly established in Indonesia, sound micro-economic policies, particularly competition policies, have thus far been relatively neglected, even ignored by Indonesia's policy-makers. To some extent this may be due to the fact that economic technocrats have been and still are mainly macro-economists rather unfamiliar with matters of industrial organisation. Perhaps these technocrats, having had to spend a lot

of energy and time on persuading other influential policy makers of the need to pursue sound macro-economic policies, did not and still do not yet have the time to formulate sound micro-economic policies, particularly competition policies.

However, as the competitive environment in the export markets for Indonesia's manufactured exports becomes increasingly fierce, Indonesia's policy-makers, just like the policy-makers in other industrialising countries, need to pay increasing attention to provide an adequate structure of incentives and an appropriate institutional setting to stimulate entry and competition in industries where dominant firms need to be challenged to improve their competitive performance. Such competition policies should, first of all, be directed at removing all policy-generated entry of new firms or the exit of old, uncompetitive firms. In addition, competition policies should also be aimed to help new firms to overcome large natural barriers, such as limited access to fixed facilities or lack access to technical and marketing information. Moreover, mergers should be discouraged if there would be a high probability that the new firm would have strong enough market power to deter the entry of new firms, engage in restrictive business practices, and keep prices far above competitive levels (Frischtak, et al., 1989: 3). Hence, effective competition policies would have to design an appropriate legal and regulatory framework which would set clearly-defined limits of what constitutes acceptable market conduct and also set the rules of how to restrain anti-competitive behaviour. In addition, competition policies might also contain provisions which would facilitate the exit of a firm from some industry if, for instance, lack of adequate information hampers the downsizing of a firm (Frischtak, et al., 1989: 3).

Although the successive series of deregulation packages, such as the replacement of the complicated Investment Priority List (*Daftar Skala Prioritas*) by a much simpler and clearer Negative List (*Daftar Negatif Investasi*) in 1989 and since then the steady reduction in the number of fields formerly listed in the above Negative List as being closed to new investment, has contributed towards establishing a more competitive environment in various industries, further deregulation measures are needed to make the business environment even more competitive. However, at present domestic markets are still subject to various types of regulations, including the restrictive domestic trade regime (*tata niaga*) governing certain commodities, which restricts domestic trade between the various provinces or between various production units, such as in the case of cloves and citrus (*jeruk*), while state-owned enterprises (*BUMN*) or large, private firms enjoying state-sanctioned monopolistic positions without a clear economic rationale continue to operate in certain areas of production. In addition, while as a result of the improvement in the international trade regime, there has been a steady movement away from quantitative import and export restrictions towards a greater reliance on import tariff protection and export taxes, restrictive regulations still govern import as well as export trade, such as rattan and a few other primary commodities. In view of these restrictive environment still governing Indonesia's international and domestic trade, competition policies are now needed in Indonesia which should aim at making the domestic product and factor markets more competitive (Morgan, 1991: 3).

While pressures of international competition, the required reciprocity in trade concessions in order to enjoy continued access to

certain export markets, and the completion of the Uruguay Round have forced the Indonesian government to gradually but steadily open up its market to import competition, similar pressures are by and large absent in the case of domestic trade. However, as the distortions caused by monopolistic domestic markets can impose welfare costs or dead-weight losses which can be even larger than the monopoly rents created by a restrictive import regime (Morgan, 1991: 3), competition policies aimed at making the domestic product and factor markets more competitive are equally needed in Indonesia. Such sound competition policies should complement the sound macro-economic policies already in place in Indonesia.

Conclusion

While pursuing sound macro-economic and competition policies are an absolutely necessary condition for providing the proper economic environment in which efficient economic activities, including an efficient, internationally competitive manufacturing sector, can thrive in Indonesia, the recent experience of Japan and the East Asian NIEs, particularly South Korea, Taiwan, and Singapore, has indicated that just pursuing "getting the prices right" policies is not adequate to develop highly competitive manufacturing firms which derive their strong competitiveness from their entrepreneurial managerial, and technological prowess (Lall, 1992: 181). Although the policy reforms and deregulation measures introduced by the Indonesian government since the end of the oil boom era in the early 1970s have been successful in restoring and maintaining macro-economic stability, and in raising non-oil exports, particularly manufactured exports, these pol-

icies are, it now appears, not yet adequate to encourage domestic private manufacturing firms to make a greater indigenous technological effort to raise their technological and managerial utilities beyond the "easier" technological capabilities, such as production capabilities, which are necessary to become independent, economically viable firms able to improve their international competitiveness on their own.

The experience of Japan and the East Asia NIEs has also indicated that "neutral" or "functional" government interventions (those that support the functioning of markets, such as providing education and developing research and developing institutes) (Lall, 1992: 165-166), were not enough to overcome market failures and encourage manufacturing firms in these countries to greater technological effort in order to raise their international competitiveness. Hence, besides "getting the prices right" policies and "functional" interventions, the government of these countries resorted to more selective interventions as part of an industrial policy to promote by "selective" infant-industry protection a number of strategic industries in which they had a potential comparative advantage, notably technology-and human skill-intensive industries.

While further deregulation measures in Indonesia are meant to open up markets, which were formerly heavily regulated or restricted by monopolistic forces, to competitive pressures, it is certainly not meant to imply a full withdrawal of the state from intervention in the economy. Hence, in the case of a rapidly industrialising country, such as Indonesia, there may, at least on paper, also be a case for "selective" interventions, in addition to the "functional" interventions, by the Indonesian government

to overcome market failure and promote a number of designated strategic industries in which Indonesia could have a dynamic comparative advantage. However, Indonesia's past experience with government intervention has shown that great care should be taken that "government failure" does not supplant "market failure", which could make matters even worse and retard rather than accelerate a sound development of Indonesia's manufacturing sector.

The Indonesian experience has indicated that government interventions have been, more often than not, "market-impeding" interventions rather than "market-conforming" interventions which, for instance, the Japanese government has perfected in implementing its industrial policy, in particular, by preserving domestic competition to as high a degree as was compatible with its priorities (Johnson, 1982: 317-319).

In contrast, the "market impeding" interventions by the Indonesian government, often achieved by direct controls and restrictions, have more often than not hampered the efficient workings of the market and promoted "socially unproductive, rent-seeking" activities, and therefore led to market distortions and inefficiencies in the allocation of resources. It is for this reason that it would not be advisable for the Indonesian government to pursue an explicit industrial policy by "governing the market" (Wade, 1990: 297-344) along the lines of Japan and South Korea, but instead, limit itself to continuing to pursue sound macro-economic and domestic competition policies as well as what Lall has termed "neutral" or "functional" interventions, that is those interventions that support the functioning of markets, such as education and research and development,

rather than "selective" interventions which promote some industries or technologies over the others (Lall, 1992: 166), often by costly explicit and implicit subsidies and government procurement and high protection.

Other useful "functional" interventions could also involve what Hill has called "enhancing the supply side capabilities" of manufacturing firms (Hill, 1993: 23-24), particularly labour productivity which in comparison with its ASEAN neighbours, let alone the ASIAN NIEs, is on the whole still relatively low in Indonesia. This could be achieved not only by expanding, but even more important, raising the quality of primary and secondary education, particularly technical secondary education, as well as education at polytechnics which are still in short supply in Indonesia, and through joint technical training programs jointly funded by the Indonesian government, Indonesia's large conglomerates, and foreign firms. Such "functional" interventions should also focus on establishing or improving the quality of various *institutions* which support efficient industrial activities, including an adequate and transparent legal framework (which is still lacking in Indonesia), and industrial or technology institutions which provide technical consultancy services, testing services, standardisation services, metrology and calibration services, and research and development services useful to manufacturing firms. In particular, by improving the capabilities of the domestic science and technology infrastructure (science and technology institutes), manufacturing firms would be able monitor and apply new technological developments which would enable them to achieve or maintain their international competitiveness.

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Economic Development and Human Resource Management: A Challenge for Indonesian Managers

Michael Hess

THE past year has been an extremely interesting time for observers of Indonesian labour relations with the apparent liberalisation of Government attitudes to employee rights. One disturbing aspect of the international presentation of this trend has been the politicisation of employee rights with some commentators presenting the situation as one of international pressure to liberalise human rights at work. There is another view which needs to be placed beside this and that is that the granting of certain employee rights is also simply good management. This article argues that the human resource management school of thought provides a key to understanding the relationship between labour management and development which may be in danger of being overlooked if worker rights are viewed solely from a political perspective in terms of the human rights debate.

Human Resource Management in Development

The relationship between labour relations and economic development is well es-

tablished and comes down to two simple points. *First*, capital investment itself develops nothing without an available and well managed supply of skilled and committed labour. The task of creating such a skilled and committed workforce is the basis of human resource development planning and is well reflected in the Jakarta Plan (Corner, 1992). The existence of such a workforce is, however, only the first step. It is also necessary to gain the co-operation of workers and that is a task which has to be taken on by government at the national level and by management in every work organisation. *Second*, employment can be a major means of spreading the benefits of economic development through the community. It will, however, only achieve this if terms and conditions of employment encourage a level of local spending and local saving both of which are fuel for further economic activity.

So the question of labour in respect of economic development relates not only to the political issue of human rights, but also to the organisational issue of effective management. For economic development the labour problem is one of motivation and performance. People will not be enthusiastic or effective economic activists if they are not

clear about how such activity will benefit them. At the level of national politics the capacity to identify and implement good policy is determined by the character of political institutions. Elsewhere I have argued that a human resource approach to development policy, by placing people at the centre of the process, has the potential for delivering the long-term political sustainability which has eluded some other approaches (Hess, 1993). There is a simple congruence between such beneficiary participation and the actual practice of labour management. At a macro level, policy reform is sustainable only if it reflects popular will and need. At a micro level change and innovation are only possible if individuals within organisations are willing and able to implement policy reform.

Human resource management is fundamentally concerned with achieving such change at the macro level of organisational innovation, with its core interest relating to the use of human resources within organisations in the most efficient, effective and productive manner.

On one hand this involves a development from a limited personnel function which sees management concerns with personnel elevated into a more strategic concept of the role of employees in achieving the objectives of the organisation. So, for instance, the personnel issue of individual performance is transformed, under a human resource management approach, into a strategy of overall workforce motivation and productivity. This in turn takes human resource management into two other areas of traditional management focus: organisational behaviour and industrial relations. An effective strategy for achieving organisational objectives through innovative management of employees will

obviously involve organisational behaviour concerns such as organisational design and culture as well as industrial relations issues such as decision-making, workforce participation, grievance procedures and dispute settlement.

So from a management point of view human resource management involves a "strategic contingent" approach to management of employees integrated with the objectives of the organisation (Gardner and Palmer, 1992: 5-6). For organisations operating in the context of a commitment to the achievement of goals of economic development there is clearly a potential overlap with human resource management in the area of improving functional efficiency. Both public sector bureaucratic reform -- especially where development objectives are clearly stated as the motivation for change -- and private sector enterprise efforts to increase efficiency can benefit from the sort of restructuring implied by the strategic contingent human resource management approach.

On the other hand there are also broader policy implications involving the issue of labour policy in general and the institutional arrangements required for the achievement of economic development objectives. In this regard it may be that the micro focus of human resource management on the strategic role of employees in the achievement of organisational objectives also has macro applications in relation to the role of workers in the achievement of national development objectives. It is noticeable that those nations which have achieved high levels of economic development have also been characterised by labour force commitment to productivity. So the "East Asian miracle" (World Bank, 1993) is not just a miracle of policy or even

of management. It is also a miracle of labour and employment relations, with labour policy having played a vital part in the achievement of this most spectacular economic growth. If other nations are to emulate this, they will need not only to get the macro economic settings right. They will also need to establish their own arrangements which allow the development of a committed workforce willing and capable of partnering capital in the achievement of economic development.

Labour Relations and Development

Since the end of the Second World War a considerable literature has developed purporting to address the labour relations experience of countries seeking to achieve economic development. In its initial period it was the work of North American and European commentators who cast themselves in the role of advisers to governments and managers in such nations.¹ This association of scholarship with operational need has resulted in a highly prescriptive literature, which neglects the processes by which current systems and practices have come into

being. In terms of labour policy this poor scholarship has failed to develop an analytical methodology and even overlooks the definition of commonly used terms. I have argued elsewhere that this has provided a poor basis upon which to evaluate actual experience of labour relations within a development context and has served to entrench assumptions based on experience in "developed" nations (Hess, 1986: 226). Nonetheless this literature has remained influential and its failings need to be spelt out in some detail before more rational conclusions can be reached.

One of the earliest and most systematic attempts to relate a broad theory of economic development to labour relations was that of the American commentators Kerr, Dunlop, Harbison and Myers (Kerr et al., 1962). Their starting point was the impressive and unexpected performance of the economy of the USA in the 1950s. Continued growth rates and accompanying industrial peace encouraged them to predict "a world wide society of pluralistic industrialism" in which the obvious benefits of industrialism would allow industrialising elites to lead their less enlightened fellow citizens along a path sign-posted by these commentators themselves (Kerr, et al., 1962: 2ff). Popular US authors, such as the economist, J.K. Galbraith and the sociologist Daniel Bell, agreed that industrial conflict was a thing of the past and that the future of development lay in workers and employers sharing the aims and benefits of increased productivity (Galbraith, 1962: 262; Bell, 1960: 375). The impact of this consensus was enormous with the "propagation of a model" becoming the norm in labour policy for "developing" countries (Windmuller, 1963: 569). In this regard the International Labour Organisa-

¹This literature is often identifiable by its titles, which link labour with some form of development. Books in this genre include: W. Galenson (ed.), *Labour and Economic Development* (New York: Wiley, 1959); B.H. Millen, *The Political Role of Labour in Developing Countries* (Washington: Brookings Institution, 1964); R.H. Bates, *Unions, Parties and Political Development* (New Haven: Yale University Press, 1971); U.G. Damachi, H.D. Siebel and L. Trachtman (eds.), *Industrial Relations in Africa* (London: Macmillan, 1979); Johannes Schregle, *Negotiating Development: Labour Relations in Southern Asia* (Geneva: ILO, 1982). Sources of articles with similar concerns are the journals *World Development* and *Labour and Development*.

tion (ILO) played a significant role presenting the governments undertaking policies of development with a set of conventions and recommendations which were often adopted in lieu of a coherent policy or even alongside contradictory practice (Shafi, 1960: 320).

In specific terms the model for the development of labour policy offered by the industrialism approach was extremely optimistic on the question of workforce support for development and saw the real need as being the establishment of institutions to express, what was from this perspectives, the established fact of co-operation. So:

the underlying problem in the transition from a traditional to an industrial society is not the adaptability of man. His capacity and eagerness for change is infinitely greater than is commonly recognised. The more fundamental factor is the suitability and adaptability of institutions. (Kerr et al., 1962: 185-6)

For the ILO this has meant principally the establishment of a "web of rules" which would codify employment practices and legitimise the state's continued intervention as the impartial third party between management and labour. The case of Pakistan in the early 1980s as presented by Schregle was typical:

The emphasis of the labour policy ... was on sound and healthy relations between employers and workers as a prerequisite for the productivity and industrial peace which was considered essential for economic progress. (Schregle, 1982: 6).

The ILO's attachment to tripartism has not, however, been shared in practice by the majority of such governments and the relevance of Pakistan as an example in this respect seems particularly inappropriate. Most notably the incorporation of organised labour into state decision-making has not

been favoured by the most successful of the governments undertaking programs of economic development. This points to the two central weaknesses in the arguments of those who have urged tripartism as a norm of labour policy. On one hand workers have not automatically been the enthusiastic partners in development which this approach assumes. On the other hand many newly independent states have sought even more direct control over organised labour than their colonial predecessors.

To look at it from another angle, industrialising elites have often had resort to the most punitive sanctions to create the conditions for worker co-operation. Where this has been successful, as in Singapore and China, it has often been achieved under strong state organisation (Fong and Cheng, 1978; Hearn, 1977). This echoes the political scientists' argument that strong or populist states are more likely to be able to implement policies because of their ability to crush or incorporate real or potential opposition. While recent studies of the implementation of reform policies have "found little evidence for a relationship between economic reform and political authoritarianism" (Bates and Krueger, 1993: 459), in labour policy both the forcible exclusion of worker organisation from the decision-making process and the physical elimination of active members have been seen as effective in terms of reducing labour opposition to development policies (Angell, 1972: 79; Armstrong and Shenk, 1982).

There are also, however, examples of incorporation as a successful strategy. From the populism of the Peronist regime (Baily, 1967: 151) to the more accommodative arrangements adopted in more recent years in Singapore (Leggett, 1993: 243), there is a line

of commentary which stresses the benefits to labour policy and economic policy in general of bringing workers and their organisations to the bargaining table. Recent commentary of this sort avoids the older ILO assumption of tripartism as a self-evident political good and presents more subtle arguments regarding the effect of particular union structures on overall economic performance (Standing, 1992). It shares with the earlier commentary, however, a difficulty of fact: the majority of governments adopting policies of economic development have not accepted an accommodative approach to labour in anything other than rhetoric.

It may well be that preferences in this matter have as much to do with timing as with ideology. As economies develop and employ more highly skilled labour the prospects for accommodative arrangements seem to increase. Citing examples from nations as different as Singapore, Thailand, the Philippines and Malaysia, Sharma posits the changing level of industrialisation as the most likely cause of alterations in relationships between organised labour and the state. So in a newly independent nation, principally involved in primary commodity production with an unlimited supply of labour, unions are likely to pursue political rather than economic goals and the nationalism of independence is likely to create a co-operative atmosphere. As an economy develops, shortages of skilled labour will create conditions favourable to the growth of economic unionism at the same time as governments are under pressure to contain wages and inflation to stimulate local savings and investment. This is the classic conflict situation. Finally a yet higher stage of industrialisation may produce a more favourable climate for foreign investment, permit wage increases and allow the sort of guided collec-

tive bargaining observed in Singapore (Sharma, 1991: 94).

At the macro level of national policy then it appears that the potential for the application of human resource management insights is yet to be realised. What is clear enough is that further research is needed on the nature of the arrangements which have contributed to a shared commitment to productivity in those nations where this has been observed and on the factors which have inhibited such labour/management co-operation in those nations where it is not a characteristic of economic activity.

Managing Organisations in Development

It is, however, at the micro level of organisational strategy that human resource management has had the greatest appeal with its distinguishing feature being found in the strategic value assigned to human resources. In its simplest form this approach is merely an extrapolation of Adam Smith's view that economic activity is ultimately a private matter. Just as the unnecessary intervention of the state is seen as an impediment to enterprise in general, so the intrusive supervision of a managerial hierarchy is viewed as counter-productive to productivity within an organisation. From "above" this involves the realisation that no manager or supervisor has all the wisdom necessary to guiding each individual worker. From "below" it centres on the view that "if workers are trained properly and granted some autonomy, they will reach the best possible decisions about how best to do their jobs" (Ouchi, 1989: 8).

An overview of what a human resource

management approach will mean in practice would stress several issues of basic organisational reform. The first is in the design of the organisation itself. Here a strategy which emphasises the contribution to be made by human resources clearly implies the efficiency of flatter management structures.

Hierarchy is seen as a hindrance to productivity precisely because it places many layers of control between employees and management and thus separates operational and strategic considerations. Far from being an exercise in "rational authority" in the Weberian sense, such hierarchy is seen as principally concerned with the maintenance of power structures. In terms of development administration the removal of layers of supervision also has implications for a closer relationship between policy making and implementation. Some labour relations literature, however, goes beyond this in urging not just that function and direction be brought closer together but that they be integrated through various means of worker participation in decision making (Davis and Landsbury, 1986). The implications of this for bureaucratic organisation are enormous but the fact that it has had an impact on efficiency should give those who dismiss it pause for thought (Davis and Landsbury, 1988).

A human resource centred approach to skill formation will have a similarly far-reaching impact on organisational structure. In traditional management approaches this would be dealt in terms of pre-employment training and there is a well developed literature on human resource planning and human resource development which emphasises the role of the state in providing such education. The gradual spread of more sophisticated approaches is seen in the fact that post-employment training has gained so

much ground in recent years. The advantage to management is in a more skilled and more flexible workforce while for employees gains may be seen in the area of personal satisfaction and career paths. Dore's comparison between the approaches to training of Japanese and Western companies establishes training as a touchstone of the adoption of a strategy based on the most efficient use of human resources (Dore, 1973: 264), while Yamashita's observation that "there is no rest from training for the Japanese employee at any level" (Yamashita, 1989: 42), shows just how central a tool of management skill formation has become, in what was for so long the world's most successfully growing economy.

The role of skill formation and career paths within an organisation has also been seen as playing a substantial part in the motivation of employees. As with organisational design, the literature in this area has a technical and a social strand. On the technical side much effort has been expended in developing the ability to measure productivity accurately. This has even been the case in service industries such as health and education in which the qualitative nature of the product makes the very effort to gain precise measurement controversial. The difficulty is that no matter how logical the methodology, the conclusions are biased by subjective judgement either in the assumptions or in the interpretation of data (Livy, 1975: 20). This means that shared objectives which would enable these judgements to be implemented are almost impossible (Thomason, 1980: 45). In such cases it comes down to a matter of judgement and in the human resource management approach, this:

places the manager in the untenable position of judging the personal worth of his subordinates, and

of acting on those judgements. No manager possesses, nor could he acquire, the skill necessary to carry out this responsibility effectively. (McGregor, 1987: 69)

A more sociological approach to this issue is seen in the quality management literature, which stresses system performance and condemns the obsession with measuring individual performance as one of management's "deadly diseases" (Deming, 1986: 98).

The general proposition, however, remains and those who follow a human resource strategy for management claim that it has the potential for transforming an indolent workforce into one which shares the productivity aims of management. Shared aims can, of course, be achieved through coercion. While this can work at early stages of industrialisation with a strong state prepared to use force against employees, it becomes increasingly difficult and costly as an economy becomes more sophisticated. In human rights terms it will also become increasingly repugnant to international and local opinion.

There are also an increasing number of examples of situations in which such shared aims have been achieved through real accommodation. In practical terms this depends heavily upon the attitudes of management and only in a few countries has this been the subject of systematic study (Poole, 1982: 288). The general conclusion of such research as has been conducted appears to be that the potential erosion of managerial prerogatives remains the major obstacle (Gardner and Palmer, 1992: 338ff), but that some organisations adopting a strategic approach to human resources have seen a genuine growth of more participate practices over a period of time (Cupper, 1976, 1979). There

is a debate as to whether it is rigidities in the production system or philosophical commitment (Palmer, 1983: 31-35) which motivates management to take employees into their confidence. Either way there is clearly a need for more and more systematic study of the effects of such schemes over time. While there are now case studies of such situations in the US, Europe, Japan and even Australia, there are problems in this area of scholarship. One is that the applied micro nature of the work it entails means that organisations must be prepared to allow researchers access to intimate detail of their operations. Few have been willing to do this, especially where they regard their management strategy as central to their competitive success.

Another is the issue of applicability across cultures. Most of the human resource models available in the literature originate in the US or Japan. It is unclear whether these practices will transfer to other environments. Certainly Philippine scholars report that Japanese firms operating in their country do not replicate their home based strategies labour management (Amante et al., 1992) and there are simply too few studies of local management practice to make any conclusion about the actual effect of human resource management in most countries undergoing economic development.

This is despite the fact that human resource management has been on the agenda of newly industrialised countries since the early 1980s. Wilkinson and Leggett report that the populist management literature of this period with its emphasis on this approach (Vogel, 1979; Ouchi, 1981; Peters and Waterman, 1982), was "compulsory reading for Singapore's technocrats" (Wilkinson and Leggett, 1985: 15). What they don't elaborate on is how much effect this

had. It is interesting, however, that in the highly interventionist environment of the newly industrialised country, the state played a major role in management training in which "human resource management became a buzz word" (Leggett, 1993: f/n9) and presumably saw it in the context of a traditional state role in human resource development.

In summary then there would appear to be plenty of potential for human resource management practices to play a role in organisations in developing countries. At this stage there is insufficient research to enable firm judgement as to the effect this is having. This is not aided by the status of the more populist literature in the newly industrialised countries, where the language of human resource management plays a large part in the rhetoric of management but is not complemented by detailed micro level research to establish its actual impact.

Conclusion

In the broader debate about economic development, most attention has been focused on macro-economic policy and how to get "good policy" adopted through particular political structures. Bates and Kreuger's recent collection of case studies provides material on the difficulties of this from the perspectives of both economics and political science, emphasising the dilemma that good policy is not always good politics (Bates and Kreuger, 1993: 454ff).

Even where that situation is resolved, however, an additional problem arises. Even where there is broad support for a particular policy direction, implementation is likely to fail unless congruent micro-level reforms are also achieved. In practical terms this comes

down to precisely the sort of organisation-level issues addressed in the human resource management literature. These can be tackled piecemeal, and usually are, as management reacts to particular crises. An organisational strategy based on human resource management can integrate such responses in a systematic way so that they flow logically from an organisation's overall orientation. In terms of winning employee support, this has obvious advantages. If it is true that the means of reform will determine its ends, such a co-operative approach at the workplace has potential beyond the particular organisation.

The current dilemma of development administration, that good policies are known in theory but not implemented in practice, will not be resolved by policy debate. It can only be resolved by the actions of people within organisations. This article argues that a human resources strategy has a lot to say about how that might best be done. A judgement about the details of the application of such a strategy in situations of economic development is, however, currently constrained by lack of appropriate research on the operation of organisations, the approach of management and the record of schemes of reform.

In reference to the Indonesian debate on worker rights two points may be derived from my argument. *First*, the successful growth of the Indonesian economy has been largely fuelled by quantity manufacturing using relatively less skilled labour. If high growth rates are to be maintained the move into quality manufacturing involving more highly skilled workers will need to be made. This will inevitably mean that Indonesian workers will gain in bargaining power in expectations as they become less easily replace-

able. The implication is that management will require a more accommodative approach in order to maintain industrial harmony and in order to derive maximum output from this increasingly valuable and demanding workforce.

Second, this need for greater attention to accommodative arrangements is a matter of managerial efficiency. Indonesian manufacturing has enjoyed a competitive advantage because of the low cost of labour under an economic system geared towards the production of quantity. As this develops towards quality manufacture, as it must if growth rates are to be maintained, attention will have to be given to making the most productive use of human resources. The increasingly skilled workforce needed for quality manufacture will need to be accorded terms and conditions of employment quite different from those which are sufficient to secure less skilled workers in a labour surplus economy. Similarly as growth in wage rates removes the competitive advantage of cheap labour a compensatory growth in productivity will be required.

So the challenge for Indonesian management is how it will respond to the more demanding workforce, which is already developing as skill levels rise throughout the economy. The point is that it will clearly not be possible to rely simply on surplus labour to discipline skilled employees who are costly to train, difficult to replace and therefore likely to be increasingly in the stronger market position to demand more of their employment and their employers. It will certainly be in the interests of management to come to terms with this new type of employee and the strategic human resource management approach offers some guidance as to how this might be done.

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Poverty and Human Resource Development in Indonesia: A Brief Survey

T. Tambunan

I. Introduction

INDONESIA is a geographically diverse country spread across an archipelago of more than 13,000 islands, with a land area of about two million square kilometers. The country had a mid-1989 estimated population of around 178.2 million, growing at about 1.9 per cent per annum, and is the world's fifth most populous nation. Indonesia has a very diversified resource base, with plentiful primary energy resources, significant mineral deposits, large timber potential, abundance of labour force, and, since the 1970s, a well developed system of agricultural commodity production and exports.

About some twenty years ago Indonesia was one of the poorest countries in the world. In the second half of the 1960s Indonesia's GNP per capita was only US\$50. Since the start of the first Five Year Development Plan (*Repelita I*) in 1969, Indonesia has undergone a spectacular economic development. As a result, by the late 1980s, Indonesia's GNP had risen to almost US\$500 per capita. Up to the early 1980s the Indonesian government had adopted a protectionist trade policy and after the world-wide eco-

nomic recession in 1982 the country's trade policy has been shifted gradually towards an export-oriented policy and the country has undergone an overall economic reform.

One important aspect of economic development is human capital development or improvement in education. Since Repelita I, improving access to and consumption of education service (and other social services like health and nutrition) have become an important policy instrument in the Indonesian government's overall strategy not only to sustain and accelerate overall development but also and even more important to alleviate poverty and improve the welfare of the population in the country. Expanding coverage and quality of education service (and other social services) constitutes an investment in human capital leading to future yields in increased overall productivity in general and productivity among the poor in particular.

The aim of this paper is to discuss briefly these two important aspects of development in Indonesia: poverty and human capital development. The rest of this paper is divided into four sections. Section II reviews the macroeconomic development of Indonesia.

Section III deals with the issue of poverty in the country. Section IV deals with human capital development issue and its related public policy in Indonesia. Concluding remarks are summarised in Section V.

II. Macroeconomic Development

Economic Growth

In the second half of the 1960s Indonesia's GNP per capita was only US\$50, amounting to roughly half of the GNP per capita in countries like Bangladesh, India and Nigeria. Poverty was widespread throughout the country (World Bank, 1990a). The years between 1960 and 1965 had been fateful from an economic point of view with hyperinflation, growing rice imports, huge government deficits, a balance of payments deterioration and an overall decrease in domestic production.

Under the "New Order" government in 1966, Indonesia started with a new economic program. But, before the start of the overall process of national economic restructuring and development, the new government took first a number of measures especially in order to clear the monetary deficit and established a tight-money policy in an effort to reduce hyperinflation; all of these were caused by the economic mismanagement during the "old regime". These first steps were necessary in order to stabilise domestic economy and accordingly to form a basis for economic reconstruction and development in the country.

Since the start of the first Five Year Development Plan (*Pelita I*) in 1969, Indonesia has undergone a spectacular economic devel-

opment. As a result, by the late 1980s, Indonesia's GNP had risen to almost US\$500 per capita, much higher than that in the three countries mentioned above (World Bank, 1990b). With this level of GNP per capita the position of Indonesia raised from a "lower low income country" to a "middle low income country", according to the World Bank classification of income groups of countries.

The rapid increase of GNP within that particular period was closely linked to two main factors, namely to development-oriented strategies implemented by the "New Order" government and to a rapid expansion of oil and liquefied natural gas (LNG) earnings during the 1970s. But, perhaps above all is that Indonesia could easily start its development process in the late 1960s without any serious obstacle and delay, while one can say that the country's economy during the old regime (1945-1965) stagnated, mainly because, as mentioned earlier, a number of appropriate measures was taken by the new government before the overall process of development started aimed at stabilising domestic inflation and interest rates and reducing government deficits.

This is one important lesson that can be learned from the Indonesian experience, which suggests that stabilisation in domestic economy, in particular with respect to domestic prices and interest rates, and also, of course, in social and political areas, is an important necessary prerequisite for restructuring the economy and then starting the process of development.

As shown in Table 1, during the 1970s in terms of GNP the Indonesian economy grew at 7.1 per cent a year. During the 1980s it

was about 6.1 per cent a year. This lower rate than that in the 1970s was caused to a larger extent by the worldwide recession in 1982 and fall in prices of Indonesia's important commodities. Up to the mid-1980s, in addition to exports of oil and gas (LNG), the Indonesian economy was also very dependent on exports of various primary commodities. These external shocks have deteriorated sharply Indonesia's external balance. The decline intensified in 1986 due to the unexpected decline of oil prices and adverse currency fluctuations. The crude oil export price dropped from a peak of over \$34 per barrel in 1981 to about \$12 per barrel in 1986. Although oil prices in the world market have recovered since 1987, the average real price of crude oil in 1990 was around 50 per cent lower than in 1981. Another important "shock" for the Indonesian economy in that decade was the depreciation of the US dollar between 1985 and 1988. This has also adversely affected the economy of Indonesia, as a large proportion of its debt is mainly in currencies that appreciated against the US dollar. Due to this depreciation Indonesia's total debt in dollar terms and debt service payments increased significantly in the 1980s.

Overall, the economy of Indonesia was estimated to have suffered an income loss from all these shocks equivalent to some 9-10 per cent of its GNP in the period of 1983-1988.

These negative effects on the Indonesian economy of several worldwide shocks in the mid-1980s provide also one important lesson. A country which is fully dependent on a single domestic sector is much more vulnerable to worldwide economic shocks than any other country with a high degree of domestic economic diversification. The highly dependence of the Indonesian economy on the oil and LNG sector, especially in the 1970s, had also deteriorated other domestic economic sectors in the country, especially the agricultural sector; while the larger part of the country's total working population worked in the sector (although the Indonesian government had used a large part of revenues from oil exports for financing many projects or programmes in the sector).

To sum up, since the "New Order" government in 1966, economic development in Indonesia has been hailed as being made up of three success stories. *First*, the rapid sup-

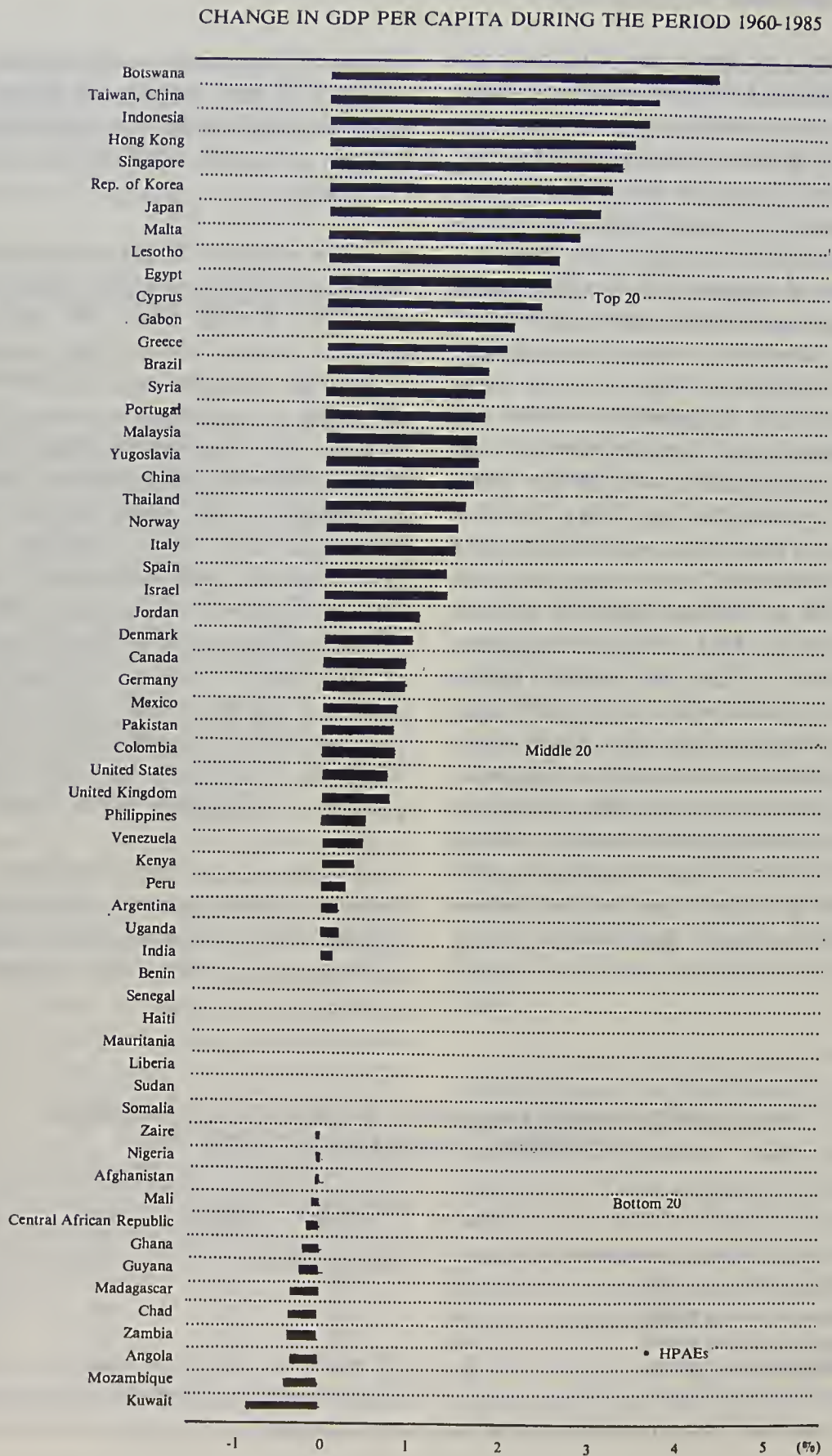
Table 1

REAL GROWTH RATE (% PER YEAR) OF MACROECONOMIC INDICATORS
OF INDONESIA, AT CONSTANT 1987 PRICES

	1965-73	1973-80	1980-90	1989	1990
Gross Domestic Product (GDP)	6.6	7.2	5.3	7.3	7.1
Gross Domestic Income (GDI)	6.1	10.3	4.1	7.4	8.1
Gross National Product (GNP)	6.6	7.1	6.1	7.7	7.1
Gross National Income (GNI)	6.1	10.6	4.9	7.7	8.1

Source: The Central Bureau of Statistics (BPS), Jakarta, various issues.

Figure 1



Source: from Figure 2 (page 3) in World Bank (1993).

Table 2

**GROSS NATIONAL PRODUCT PER CAPITA OF INDONESIA AND SOME OTHER
ASIAN COUNTRIES (IN US DOLLAR) FOR SELECTED YEARS**

	GNP Per Capita (in US\$)							Overall Growth Rate (%)
	1970	1973	1978	1980	1986	1989	1990	1970-90
India	110	130	190	240	290	350	350	218
Bangladesh	100	80	110	150	160	190	210	110
Pakistan	170	130	220	290	340	370	380	210
China	130	150	220	300	300	350	370	185
Indonesia	80	110	370	470	530	510	570	613
Korea, Rep.	270	390	1,190	1,620	2,570	4,400	5,400	1,900
Malaysia	390	550	1,150	1,690	1,840	2,120	2,320	495
Philippines	230	230	480	650	550	680	730	217
Thailand	210	250	530	670	800	1,220	1,420	576

Source: World Tables 1992, Washington, D.C.: World Bank.

pression of the hyperinflation and transition from a very tight controlled to a "semi" market-based economic system during the second half of the 1960s. *Second*, the successful macroeconomic management, especially management of the foreign exchange rate to avoid "the Dutch disease" problem during the oil boom in the 1970s and early 1980s. *Finally*, the rapid transition away from an oil based economy towards an export oriented economy in the late 1980s.

Growth of GDP Per Capita

In the Asian perspective, as a comparison, Indonesia can also be cited as a country which took prompt macroeconomic and structural adjustment measures. These measures resulted in high annual rates of economic growth in the country in the 1970s and 1980s. While in 1970 Indonesia was the poorest nation as compared to other Asian countries as shown in Table 2, in 1990 the In-

donesia's GNP per capita was higher than the GNP per capita in India, Bangladesh, Pakistan and China. With the exception of South Korea, one of a few fast growing economies in Asia, during the period of 1970-1990 Indonesia emerged as a country with the highest overall growth rate amongst the countries presented in Table 2.

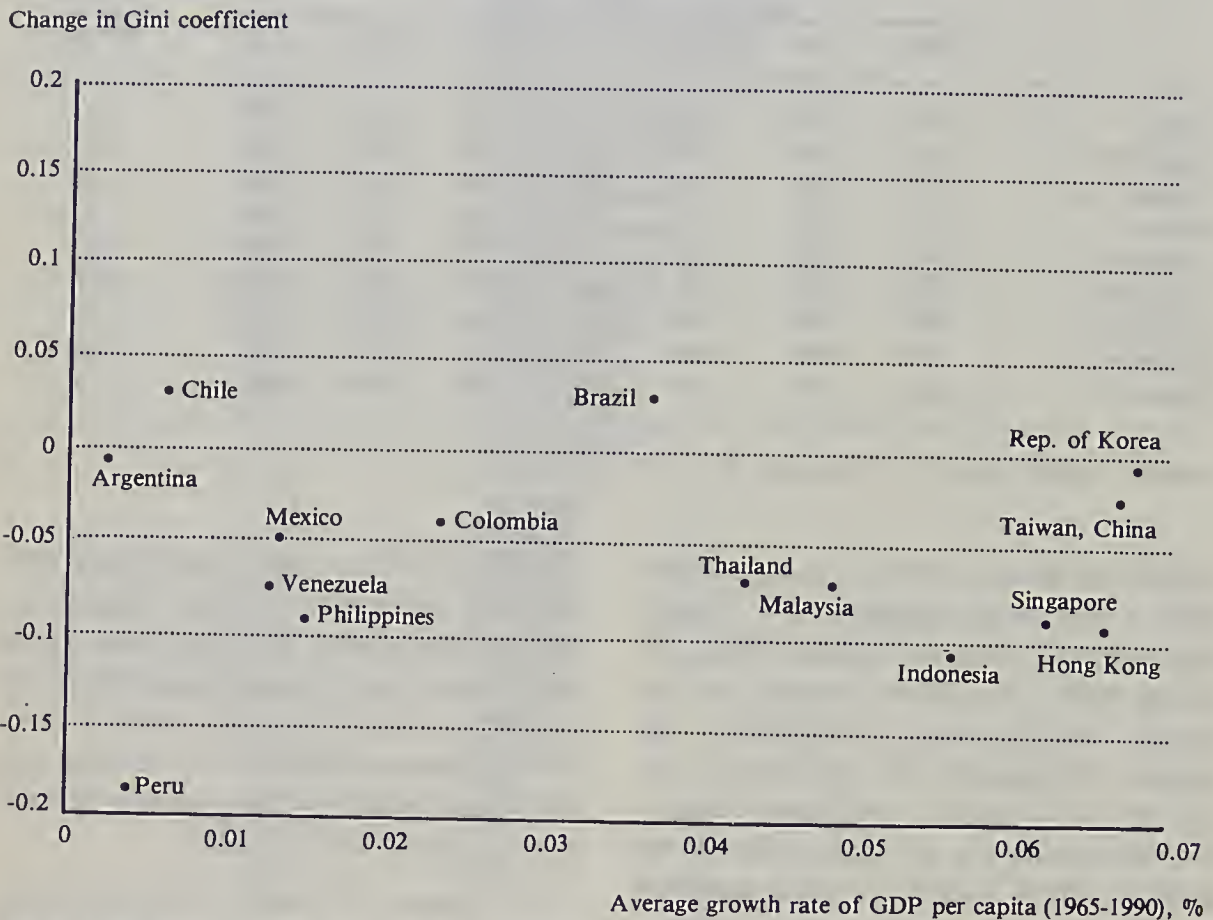
In Figure 1, in terms of growth in real GDP per capita for the period of 1960-1985, we can see that the average change in real GDP per capita in Indonesia was about 3,5 per cent, which was higher than many other countries included in the figure.

III. Economic Inequality and Poverty

The figures in Chapter II are meaningless if the fruits of the economic growth in Indonesia are not equally distributed among the population in the country. In other words,

Figure 2

RELATIONSHIP BETWEEN THE AVERAGE GROWTH OF GDP PER CAPITA AND
THE IMPROVEMENT OF INCOME DISTRIBUTION OVER TIME (AVERAGE CHANGE IN GINI
COEFFICIENT) IN INDONESIA AND OTHER COUNTRIES: 1965-1990



Source: from Figure 3 (page 4) in World Bank (1993).

the important question is whether a positive relationship exists between the growth of GDP per capita and the level of equality of income distribution. This relationship concerns the poverty or the welfare aspect of development or economic growth in a country.

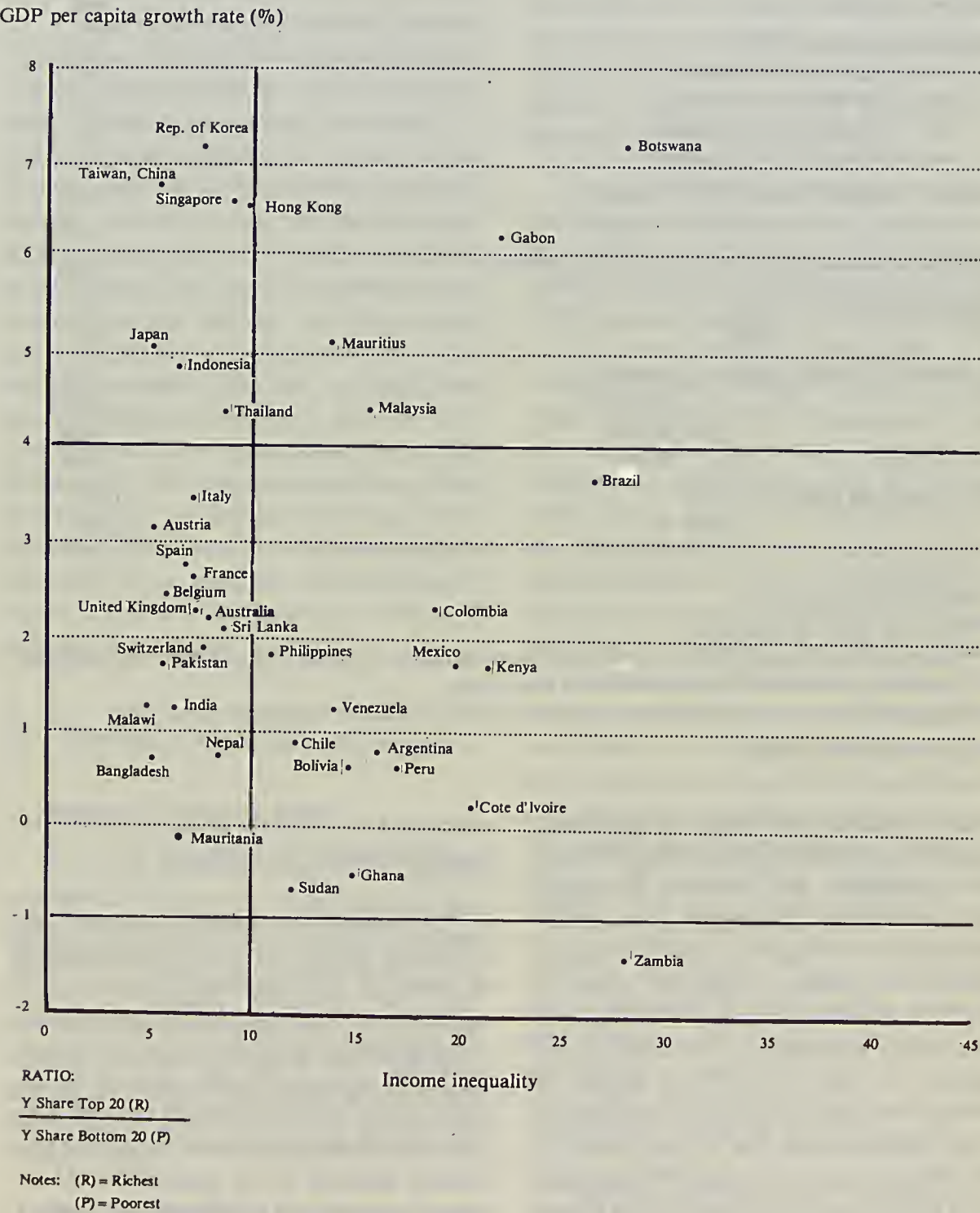
Figure 2 shows the above relationship or the relationship between the growth of GDP per capita and changes in the Gini (G) coefficient, a statistical measure of the inequality

of income distribution.¹ The figure indicates that during the period under consideration there has been a decrease in the level of ine-

¹G=0 means that everyone gets the same share of income, or the level of equality of income distribution is the highest. G=1 means that only one person gets everything. Clearly for most countries, the actual value of G lies between 0 and 1. This Gini coefficient is the most favoured index to measure inequality of the income distribution. For discussions of other methods, see e.g. Atkinson (1970); Pen (1971) and Sen (1973).

Figure 3

RELATIONSHIP BETWEEN GDP PER CAPITA GROWTH RATE (%) AND
INCOME INEQUALITY IN INDONESIA AND OTHER COUNTRIES, 1965-1989



Source: from Figure 1.3 (page 31) in World Bank (1993).

Table 3

SOME SELECTED INDICATORS OF POVERTY IN INDONESIA

GNP per capita (US\$), 1992	570
Total household income, 1992	
- share* to top 10% of household	27
- share to top 20% of household	41
- share to bottom 40% of household	42
- share to bottom 20% of household	21
Population in absolute poverty, 1992**: urban	20.1
rural	16.4
Prevalence of malnutrition (under 5 years of age), 1992***	14.0
Infant mortality rate****: 1965	128
1990	61
Life expectancy at birth (years) 1960: overall	44.1
female	45.1
1992: overall	61.8
female	63.6
Calorie supply per capita*****: 1965	1,791
1990	2,750

*% of income;

**% of total population;

***% of age group of population;

****under one year of age per 1,000 live births. It is the annual number of deaths of infants. More specifically, the probability of dying between and exactly one year of age;

*****the calorie equivalent of the net food supplies in a country, divided by the population, per day.

Source: World Bank (1992).

quality of income distribution in Indonesia; a negative sign indicates that income became less concentrated. But, whether the above relationship in the Indonesian context is indeed positive, we must see it in its dynamic aspect of the process. During the period of 1965-1970 the average rate of GDP growth in Indonesia was about 2.7 per cent and the value of G was 0.4. In the period of 1971-1980 the growth rate was 6 per cent and G was slightly above 0.4. In the period of 1981-1990 the growth was about 5.4 per cent a year and G was 0.3. We can say that indeed in the course of development there has been

a decrease in the level of inequality of income distribution in Indonesia.

The relationship between economic development and poverty can also be measured in terms of the relationship between GDP per capita growth rate and income inequality, as illustrated in Figure 3. The income inequality is measured by the ratio of the income shares of the richest 20 per cent (the top quintile) and the poorest 20 per cent (the bottom quintile) of the population. As we can see, Indonesia is included in the group of countries with high growth (GDP per capita

greater than 4.0 per cent) and low relative inequality (ratio of the income share of the top quintile to that of the bottom one less than 10).

A rapid economic growth with declining inequality of the income distribution in a country may suggest that the country has been successful in reducing its poverty. In Table 3, some indicators of poverty in Indonesia are shown. Based on the most recent estimate, we can see that although in the last 20 years it has declined, the level of inequality of income distribution in Indonesia is still obvious, as, for instance, the income share of top 20 per cent of total households in the country is about 41 per cent. A World Bank study (1990b) reported that in the early 1970s the percentage of population below the poverty line in Indonesia was about almost 60 per cent and it decreased to 17 per cent in the early 1980s. Number of poor people in the country was estimated at 68 millions in the first period and decreased to about 30 millions in the second period.

IV. Human Capital Development

Investment in Human Capital

Formerly, education was once regarded primary as a means of raising political and social consciousness and of supplying trained manpower needed for the production process of an economy. Vocational and technical skills were considered the key to development and modernisation, and secondary and higher education geared to its manpower requirements were emphasized (Baum and Tolbert, 1985).

Presently, education is seen as a basic human need, as a means of meeting other

basic needs, and as an activity that sustains and accelerates overall development. It is now generally recognised that development of a country's human resources is essential to its prosperity and growth and to the effective use of its physical capital. Education process in terms of investment process in human capital is an integral component of all national development effort.

As in other many developing countries, Indonesia is educating more of its population than ever before. The Indonesian government has pledged to provide basic education to its citizens, and universal primary education has been achieved nation wide in the country. As can be seen in Table 4, enrolment ratios at all levels of education as also in some other selected indicators of human development have risen in the last two decades, during which time public spending in the educational sector has steadily increased. Between 1980 and 1990 the percentage of the population in age bracket of 6-23 enrolled in the three main levels of education in Indonesia rose from 51 to 58 per cent. Although the largest part of this increase has been in primary education, it is in the secondary and tertiary levels that the greatest proportionate increases have occurred. Nevertheless, primary enrolment still accounts for the largest part of the total school enrolment in the country as in many other developing countries. In 1990, the net primary enrolment ratio, i.e. the number of students enrolled in the primary level of education who belong in the relevant age group as a percentage of the population in that age group, is approximately 98. While the net secondary enrolment ratio is 38 and the gross² tertiary enrol-

²Gross means whether or not they who enrolled in a level of education belong in the relevant age group for that level.

Table 4

SELECTED INDICATORS OF AND TRENDS IN HUMAN DEVELOPMENT FOR INDONESIA AND OTHER SELECTED ASIAN COUNTRIES, 1970-1990

	A (%)		B	C	D	E		F	G	H	I
	1970	1992	1992	(year)	(index)	1980	1990	(person)	(%)	(%)	1992
				1992	1992			1986-91	1987-90	1988-90	
<i>High Human Development</i>											
- Hong Kong	-	90	0.90	7.2	2.28	59	69	56.3	6.7	39	0.88
- South Korea	88	97	0.95	9.3	2.55	66	74	45.9	-	29	0.86
- Singapore	-	92	0.92	4.0	2.11	53	68	22.9	5.8	53	0.84
- Brunei Darussalam	-	86	0.86	5.0	2.05	64	67	21.7	-	0	0.83
<i>Medium Human Development</i>											
- Malaysia	60	80	0.80	5.6	1.97	54	58	-	1.4	28	0.79
- Thailand	79	94	0.94	3.9	2.14	49	45	1.2	5.0	18	0.80
- Philippines	83	90	0.90	7.6	2.31	61	64	-	6.7	30	0.62
<i>Low Human Development</i>											
- Indonesia	54	84	0.84	4.1	1.96	51	58	12.1	0.6	11	0.59
- Vietnam	-	89	0.89	4.9	2.10	52	52	-	-	-	0.51
- India	34	50	0.50	2.4	1.16	40	50	3.5	-	20	0.38
<i>All Developing Countries</i>	-	64	-	-	-	45	46	8.8	1.2	28	-

Notes:

A. Adult literacy rate: the percentage of persons age 15 and over who can read and write;

B. Literacy rate index: the percentage of total population who can read and write;

C. Mean years of schooling: average number of years of schooling received per person age 25 and over;

D. Educational attainment: the measure of educational achievement which is based on literacy and mean years of schooling;

E. Enrolment ratio at all levels of education: it is the number of students enrolled in three main level of education, i.e. primary, secondary and tertiary, who belong in the relevant age group, expressed as a percentage of the population in that age group;

F. Scientists and technicians per 1,000 people: persons with scientific or technological training who are engaged in professional work on R&D activities, including administrators and directors of such activities;

G. Tertiary education as % of corresponding age group: e.g. universities, teachers' colleges and higher professional schools;

H. Science graduates as % of total graduates: tertiary education graduates in the natural and applied sciences;

I. Human development index: a composite measure of human development indicators representing three equally weighted dimensions of human development: longevity (life expectancy at birth), knowledge (adult literacy and mean years of schooling) and income (purchasing power parity; US dollar per capita).

Source: UNDP 1992 and 1994.

ment ratio is 92.

The enrolment ratio, however, can be very misleading. The ratios show only the proportion of school age children and teenagers enrolled in primary, secondary, and higher educational institutions at a single point of time (e.g. 1990). They do not indicate how many of these students remain in school for the duration. In fact, one of the major educational problems of developing countries is the very high percentage of students who drop out before completing a particular cycle or level of education. For example, in Latin American countries, the primary school dropout rate (before completion) in the 1970s ranged between 60 and 75 per cent out of every 100 students who enter primary school. In many African and Asian countries the medium dropout rates were approximately 54 and 20 per cent, respectively. At the secondary level of education, medium dropout rates for those entering in 1975 were 38.7 per cent in Africa and 18 per cent in Latin America and Asia (Todaro, 1989). In Indonesia in 1990 completing primary level as a percentage of first-grade entrants was approximately 77 per cent which may indicate that the dropout rate for this level of education was about 33 per cent (if the repetition rates are zero).

From Table 4, we can see that although there have been improvements in many of these indicators in Indonesia in the last 20 years, Indonesia, however, is still a country with low level of human capital development. Especially with respect to university or science graduates, the most important element of human capital development, Indonesia is still lacking behind many other Asian countries. However, the high number of university or science graduates does not really matter; what really matters is that whether

these people can or do make a large contribution in domestic R&D, original as well as applied scientific research activities and in international scientific literature. This aspect is still very weak in Indonesia.

Efforts have been made by the Indonesian government to improve efficiency and quality of the educational system and to increase the relevance of education to meet national needs of the country. Nevertheless, a vast number of people, especially in rural areas and among poor households (see Table 5), have had little or no access to education. Educational opportunities within the country are unequally distributed and graduates frequently find that what they have to offer is not what employers or industries want. This latter leads undoubtedly to high annual rates of (disguised) unemployment, including in big cities like Jakarta, Surabaya, Bandung and Medan. Also the quality of education, in particular in rural areas and rather "isolated" provinces of the country is often poor. A common, though imperfect measure of educational quality is real expenditures per pupil at a particular level of education. Differences in this ratio reflect mostly differential changes during a particular period in income growth and in the number of children entering schools (Birdsall and Sabot, 1993). A somewhat better measure of school quality is the performance of children on tests of cognitive skills, standardised across economies (Stevenson and Stigler, 1992). Yet, another indicator of education quality is primary school repetition rates (World Bank, 1990a).

In education, as in other social sectors such as health in Indonesia as in many other developing countries, the bias in providing facilities has been toward urban areas or big cities such as Jakarta and more prosperous

Table 5

DISTRIBUTION OF POPULATION AGED 15 AND OVER BY
EDUCATIONAL ATTAINMENT IN PERCENTAGE, 1987

	Urban			Rural			Total		
	Poor	Nonpoor	Total	Poor	Nonpoor	Total	Poor	Nonpoor	Total
Not attended school	28.8	9.3	10.0	33.0	22.1	24.6	32.7	18.0	20.6
Not completed primary school	31.4	16.5	17.1	35.7	31.2	32.2	35.5	26.4	28.0
Primary school	29.1	27.9	27.9	26.2	30.9	29.8	26.4	29.9	29.3
Secondary school									
- lower	7.2	21.9	21.4	3.8	9.6	8.3	4.0	13.6	11.9
- upper	3.4	21.1	20.5	1.2	5.6	4.6	1.3	10.6	9.0
University or academy	0.0	3.3	3.2	0.1	0.6	0.5	0.1	1.5	1.2

Source: World Bank Staff estimates from 1987 *SUSENAS* Survey.

regions like West Java. Children in rural or impoverished areas often find the nearest school far from home. Class rooms are likely to be overcrowded and teaching materials scanty.

In Table 5 we can also see that the combination of an income constraint and unavailability of schools (mainly in the past, especially before the "oil boom" period) is reflected in the higher mean level of completed education among the nonpoor. The conclusion from this table is twofold. *First*, as mentioned earlier, educational opportunities are unequally distributed between rural and urban areas. *Second*, limited household income in relation to school costs is deterrent to school attendance at higher (than primary) levels of education for children from the poor households. In relative terms, moreover, limited household income will become a more important cause of absence from school for many children from the poor households as the education infrastructure expands in the course of economic development, particularly at the secondary and tertiary levels.

It is often stated that there is a strong positive association between the level of education, literacy and personal or household income. This reflects the fact that education is both a cause and a consequence of higher income. As regard the first association, many studies showed that in countries with higher growth rates or level of real per capita GNP, the literacy level as well as enrolment ratios in the countries are higher than those in countries with lower level of real GNP per capita (e.g. Behrman and Schneider, 1992).³ It has also been demonstrated that investment in education has a direct, positive effect on individual productivity and earnings (see e.g. World Bank, 1980).

With respect to the second form of association, it is obvious that in general children from poor households have much less access than those from wealthy households to schools or universities with high quality. In Indonesia, there are very significant differences in quality both of primary and sec-

³Or see World Bank (1993).

ondary education in relation to household income. In terms of primary school repetition rates, one indicator of education quality mentioned before, it was found that the rates vary widely across provinces. These inter-provincial differences are closely related to income levels, as reflected in an elasticity of -0.74 of primary school repetition rates with respect to average household expenditures per capita (World Bank, 1990a). In other words, repetition rates are significantly higher in poorer provinces. It is often suggested that for the effectiveness of education system and eventual earnings of students, it needs more a policy of providing key reaching inputs to complement teachers than a policy for expanded quantity of schools in producing quality education in primary and other levels.⁴ Also, as advised by the World Bank, an approach to the problem of lacking of school with good quality by the poor children would be through government support to voluntary programs of contributions to meet the schooling costs of these students, especially the poorest ones. As a matter of fact, such programs exists now in some schools and in some regions, but are very limited in coverage.

Public Policy and Expenditure on Education

Public spending on education by developing countries in the last three decades rose from 2.2 per cent in 1960 to 3.9 per cent in 1990 as a percentage of GNP. In Indonesia public expenditure on education in 1960 was 2.5 per cent of its GNP (see Table 6). Though there are no data available for 1990, it is expected that the share rose too in the last three decades as by other countries

shown in Table 6. In terms of percentage of total public expenditure on education, the share in Indonesia increased from 8.3 per cent in 1960 to 9.8 per cent in 1992. However, this level is still considered to be lower than those in other ASEAN countries listed in Table 6. Although data are not available for Indonesia, as in many other developing countries it is also expected that the highest proportion of total public spending on education in the country goes to primary and secondary schools. It is particularly true due to the fact that in the last two decades, precisely since the "oil boom" in 1973/1974, an extremely large number of school buildings in all over the country have been constructed. The focus of the Indonesian government policy on education in the past two decades has been a policy to provide broader access for all citizens, including in rural areas, to at least primary schooling. Basic education, particularly primary education, merits priority attentions by the government, not only on equity but also on efficiency grounds.

As said above, the Indonesian government, in the past two decades, has made concerted efforts to improve access to education, particularly primary education, for all citizens. Two key features of this policy were: (1) the launching in 1974 of an *IN-PRES* primary school construction program, which channelled a total of about Rp. 3.7 trillion for primary school construction; and (2) the elimination by 1978 of primary school fees. This program has succeeded in providing access to primary schooling for most children of primary school age in the country. From a World Bank's study (1989), net enrolment ratios as calculated from the 1987 *SUSENAS* indicates that about 92 per cent of primary school children were enrolled in school. In 1986, primary school enrolments

⁴See e.g. Behrman, J. and Birdsall, N. (1983) and World Bank (1989).

in Indonesia were 15 per cent higher than the average for all low and middle-income countries whereas in 1965 Indonesia was below the average for these groups of countries (World Bank, 1989). This is obviously the main result of the *INPRES* program mentioned above. It is often stated that Indonesia's expansion of primary schooling is one of the most successful case of large-scale school expansion on record.

But, in terms of Rupiah per student, it is obvious that the current allocation of public budgets in the education sector in Indonesia favours higher levels of education (see Table 7). Because levels of completed education are found to be positively associated with household income, as shown in Table 5, this pattern of public expenditure in the education sector tends to benefit the better-off. This pattern together with the income-

Table 6

PUBLIC SPENDING ON EDUCATION IN INDONESIA AND
SOME OTHER SELECTED ASIAN COUNTRIES, 1960, 1980, 1990 AND 1992

	Public expenditure on education as % of GNP		Public expenditure on education as % of total public spending	
	1960	1990	1980	1992
India	2.3	3.5	1.9	2.1
Indonesia	2.5	-	8.3	9.8
Philippines	2.3	2.9	13.0	15.0
Thailand	2.3	3.8	19.8	21.1
Malaysia	2.9	6.9	18.3	19.6
South Korea	2.0	3.6	17.1	16.2
Hong Kong	-	3.0	-	-
Singapore	2.8	3.4	14.6	22.9
Brunei Darussalam	-	-	11.8*	-

*1989

Sources: UNDP 1992 and 1994.

Table 7

PUBLIC BUDGET ALLOCATIONS PER STUDENT FOR
EDUCATION BY CATEGORY OF EXPENDITURE, 1989-1990

Level of Education	Rupiah Per Student			
	Development	Routine		Total
		Salaries	Other	
Primary	5,059	65,193	1,819	67,012
Lower secondary	38,094	82,133	14,692	96,826
Upper secondary	218,159	118,780	62,618	181,399
Higher	1,186,705	453,885	82,746	536,631

Source: World Bank (1989).

enhancing effects of education, i.e. higher income also increases the demand for education, implies that children from wealthy parents get more better education in all levels than those from poor parents. Therefore, an important objective of public policy and a critical component of a poverty strategy in Indonesia must be to provide equal and broader access to full benefits of education for all children from all income categories of households in the country.

In Indonesia, as in many developing countries, a very high percentage of total spending on education goes to recurrent costs. Within this category, teacher's salaries and salaries for other school and university staffs predominate, as shown in Table 7. Nonsalary expenditures, for items such as teaching materials and classroom equipment, are typically only a small proportion especially at the primary and level. But also at university or academic level, only a small percentage of total spending on education goes to the financing of libraries. Even these days, it is not surprising if one will find that libraries in many universities in Indonesia are still "underdeveloped", without having many good international books as well as a collection of good periodically scientific journals.

It is obvious, despite of efforts made by the Indonesian government, that differences in the quality and effectiveness of public primary and secondary education, either within a region or between rural and urban areas or big cities, is still enormous. The enormous differences depend particularly upon the availability of supplementary financing from the community. Moreover, the differences in the quality between public and private schools are also significant, while most poor parents cannot send their

children to private schools because the parents cannot afford that. It can be said thus that because of the enormous differences, equality of access to quality primary and secondary education has not yet been achieved. Success in meeting the government's national goal of improving the quality and the accessibility of basic education for all citizens in all areas, urban as well as rural, around the country requires, above all, that more public resources, not only financing, be provided to schools in poor communities; that means also in "isolated" provinces or backward rural areas in the country. Thus, in order to realise that stated goal, allocation of more resources than only additional financing to schools in the poor communities or regions will be necessarily required.

Concluding Remarks

From this brief survey, we can see that there has been some improvement in the indicators of human capital development and well-being of people in Indonesia in the last 20 years. However, it raises, at least, two important questions: (1) is everybody indeed getting better? The figures presented in this study are at the national aggregate level. So, we must be very careful in drawing any conclusion on this issue based on the figures; and (2) is the progress which has been made so far, since the beginning of *Repelita I* (1969), fast enough or has it proceeded very slowly? In other words, the discussion is not focussed on the actual performance of the indicators, but it must focus on those two questions.

Further, the Indonesian government has made some progress in the improvement of

the basic education of the population in the country. But, one still get the feeling that attention has been given more to the quantity than to the quality aspect of the improvement by constructing many schools rather than by also improving the quality of the existing schools. Also less attention has been given to the "welfare" of the teachers. Poor teachers, financially, will perform badly. Hence, to increase the quality of education the improvement of the quality of the teachers is also required. This latter can be done by e.g. improving their motivation and knowledge. With respect to the former, it is obvious that the improvement of their motivation is strongly related to the level of their income as a teacher. So, there is also the income aspect of the overall improvement in the education sector in Indonesia, and, unfortunately, 'this aspect seems to be forgotten or overlooked by the Indonesian government so far.

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Indonesia's Society and Culture in 1994*

Harsja W. Bachtiar

Population of the Archipelago

THE Indonesian population is ethnically very diverse. Although there is a general tendency among foreigners to perceive the Javanese, indeed by far the largest ethnic social collectivity in Indonesia, with the Indonesians as a whole, there are actually more than 400 different territory based ethnic societies in Indonesia, each with its own home territory, its own language, its own cultural tradition, its own social structure, its own collective history and, of course, its own ethnic identity. Its negative manifestation for the indigenous population of a given province or territorial administrative unit is the tendency to insist on the appointment of its native sons, *putera daerah*, rather than any other persons who might, in fact, be much better qualified for the relevant responsibilities. Actually, ethnocentrism can also be discerned without much difficulty among many high officials of the bureaucracy of the central government, in spite of having acquired an Indonesia oriented education for many years.

It has practically already become common knowledge that the Government of Indonesia has been successful in controlling the growth of its population through an extensive family planning program which very much supports the larger national development endeavour.

Another important feature which ought to be noted is the occurrence of urbanisation, the flow of people from the villages to the more urban centres, particularly the larger cities, contributing to the rapid growth of such cities as Jakarta, Surabaya, Bandung, Yogyakarta, Medan and Ujungpandang. Urbanisation also contributes to the convergence of individuals and social collectivities originating from different races, different ethnic societies, and different parts of the archipelago in the urban centres with, of course, a stronger tendency to become Indonesianised than people remaining in the rural areas.

Tremendous Progress in Education

Although the general population of Indonesia cannot yet be called a properly educated people, it is a far better educated popu-

*Paper presented at Australia-Indonesia Bilateral Conference on "Diverse Cultures, Converging Interests", organised by RIAP, University of Sydney and CSIS, Jakarta, in Surabaya, Indonesia on 3-5 July 1994.

lation than when the nation freed itself from Dutch colonial domination nearly fifty years ago.

In 1984 compulsory six year primary education has been introduced which at present has resulted in more than 95 per cent of the school age children of the nation being enrolled as pupils of the primary schools. And this year, ten years later, compulsory education has been extended from six years to nine years, a policy decision which is based on the relevant requirement of the Law Number 2 of 1989 on the National System of Education. Given the size of the number of individuals involved and the budgetary constraints of both the government and the private sector, this new stage in the development of compulsory education in Indonesia is not expected to be completed in its implementation before the end of ten years from now. It was understood in the parliamentary discussions on the draft of the aforementioned law that immediately after the successful completion of nine year compulsory education, the subsequent 12 years of compulsory education will be introduced.

Efforts are also being made to expand vocational and technical education as a requisite for the creation of the necessary human resources to support the industrialisation endeavour.

Higher education, which according to the 1989 Law on the National System of Education is undertaken by five types of institutions namely universities, institutes, higher schools, academies and polytechnics, has also expanded tremendously although it should be considered to be still in an abnormal state precisely because of the rapid expansion of the system.

When before the Dutch as the ruling colonial power in Indonesia had to capitulate to the invading Japanese military forces at the beginning of 1942, practically all subjects offered at the admittedly very few institutions of higher education in Indonesia were taught by full professors with doctorate degrees, at present the number of professors among the academics who are teaching at the still rapidly growing number of institutions of higher education in Indonesia is still very small. In fact, 70 per cent of the academics who teach at institutions of higher education under the jurisdiction of the Department of Education and Culture are only *Sarjanas*, first degree holders; 23 per cent of the academics have the Magister, or Master degree; and only seven per cent have the Doctorate degree. The general situation of higher education is even bleaker when an assessment is made of the very limited library holdings of the many institutions of higher education.

Nevertheless, the academic quality of the academic staff of certain departments, usually having acquired their advanced academic or professional knowledge at leading universities abroad, can easily compete with their peers in other countries. But their number, considering the size of the Indonesian population and its territory, is much too small.

Note should also be taken of the expansion of out-of-school education which tend to concentrate on the development of working skills. Obviously the relevant training programs are also expected to contribute to developing a better work force for economic development, not only for the growing number of factories but also to improve the quality of work in agriculture.

With the expansion of education and training and the beginning of industrialisation, more options are being created for more individuals. Also, with the expansion of the mass media, strengthened by an improving government bureaucracy, there is much more awareness of the rights and duties of the citizens, which sometimes results in a preoccupation with the claim for certain rights while being oblivious of the corresponding duties.

Strengthening of the Unifying Indonesian National Culture

The unification of the basically heterogeneous population of the territory of the Republic of Indonesia is primarily shaped by the unifying Indonesian national culture. The presence of manifestations of a rich diversity of ethnic cultural traditions, such as manifestations of Javanese, Sundanese, Balinese, Minangkabau or Buginese cultures, frequently overshadow the presence of a genuine new culture, meaningful to an increasingly larger part of the Indonesian population.

Obviously one of the basic components of the new culture is the Indonesian language, originally, when it was proclaimed as such by a number of Indonesian nationalist youth activists in 1928, it was still identical with the Malay language but very soon in its development it deviated from its origin to become a separate language, the unifying medium of communication of the linguistically diverse population of Indonesia.

Through school instruction and the mass media, particularly radio and television broadcastings, and through its application in bureaucratic, political, and religious com-

munication, the Indonesian language is even more widely known and used than it had ever been in the past. Nevertheless, there are still remaining clusters of people, relatively small to be sure, who do not yet understand the national language. They can only communicate in their own respective ethnic language.

Use of the national language permits, for example, the dissemination of the adopted basic values of the Indonesian nation, formulated succinctly as the Pancasila ideology. As generally known, these five basic values comprise the belief in the eternal God, a just and civilised humanity, the unity of the Indonesian nation, consensus democracy through the representation, and social justice for all. Pancasila is to be regarded as the supreme source of legitimation.

Accordingly, the People's Consultative Council, the highest manifestation of the people's sovereignty, ruled in 1978 that all Indonesians ought to know the Pancasila and the 1945 Constitution of the state to be guided by values therein. The subsequent widely undertaken political education programs made practically all leading adult members of society, in whatever sector of societal life, to become more aware of the basic values of the nation as well as the rights and duties of all citizens.

School education and the mass media have also contributed very significantly to the dissemination of many more elements of the rapidly developing Indonesian national culture, such as modern cognitive knowledge, a great many other cultural values and norms, literature and the art forms. The new national culture is continuously being enriched by the inclusion of elements originating from the various indigenous ethnic cul-

tures as well as cultural elements originating from outside the archipelago, such as elements from American, English, Dutch, French, German, Spanish, Portuguese, Arabic, Indian, Chinese, Japanese and Australian cultures.

Strengthening of the Religions

Indonesia has the largest number of Moslems in the world. Nevertheless, the Republic of Indonesia is not a Moslem state. Nor is it a secular state since all citizens are expected to belief in God, each in accordance with the teachings of his or her own religion, and to think and act in conformity with this belief. The Moslem community is the largest among the various religious communities within Indonesian society, while the other religious communities are Protestant, Roman Catholic, Hindu and Buddhist. Actually there are also Sikh minorities, primarily in Medan and Jakarta.

Although Islam is the religion of the vast majority of the population, the necessity to adapt its teachings to the very diverse ethnic cultural traditions of the inhabitants of the Indonesian archipelago and the presence of a religiously diverse intellectual component of the society have given the manifestation of Islam in Indonesia a moderate form which will not yield to possible more radical demands. At this point, however, it should be noted that there is certainly a growing interest in religion among people of the growing middle classes and upper classes, not only manifested in much more participation in its ritualistic activities but also in genuine efforts to acquire more knowledge and understanding about its moral aspects.

The same phenomenon is also to be discerned among the Indonesian believers of

Christianity, both Protestants and Roman Catholics. Although there tends to be decreasing interest in the Christian religion in Europe, America and Australia, there is also growing interest in Christianity in Indonesia.

In fact, one can also discern what can only be regarded as a religious revival of Hinduism and Buddhism among members of those two other religious communities. On the whole, therefore, the population of Indonesia is becoming more religion oriented.

Development of the Legal System

Present-day Indonesian society is still regulated partly by legal rules which have been inherited from the colonial past. They are, therefore, products of the Dutch legal mind which presumably can be in conflict with the guiding values of the present Indonesian national culture. Some of the inherited legal rules have been replaced by new legal rules.

The legal system itself has expanded considerably. Quite naturally, the increasing functional differentiation within Indonesian society also demands a differentiated legal system. Few sets of legal rules are constantly being produced at the various levels of the hierarchy of legal norms. A situation emerges where a given legal rule, adopted by the legislature at the initiative of the relevant executive Government Department, need not necessarily be in accord with another legal rule, adopted at the initiative of another executive Department.

Meanwhile, development also occurs with respect to the legal organisation and its personnel, the police, the prosecutors, the legal consultants, the judges, and the prison wardens, each trying to become more professional and all suffering from shortage of per-

sonnel and severe budget constraints in the face of a more demanding society.

There are, to be sure, many opportunities for deviant behaviour on the part of members of the legal profession, such as identified by a prominent sociologist, namely the tendency to abdicate legal responsibilities in the service of financial personal interests or safety in the face of severe political or social pressures; the tendency to insist on what is conceived to be the letter of the law without due regard to a reasonable balance of considerations, or what is known as exaggerated legal formalism; and the tendency to become more sentimental than the main tradition of the law warrants, using exaggerated expressions, such as is being done by some lawyers concerned with problems of "human rights". But deviant behaviour has to be recognised as such.

With respect to the legal rules it should also be noted that, as already noted elsewhere, there is an increasing public awareness of legal rights, a trend which surely will continue to develop.

Development of New Life Styles

The rather rapid formation of a modern urban elite in the larger cities also results in the formation of conspicuous new life styles which require their own physical settings and other accoutrements. Exquisite and monstrous looking mansions are being built side by side in many carefully selected places, while restaurants, discotheques and other Western-style entertainment establishments seem to grow like mushrooms. The construction of more golf courses and more luxurious shopping malls or plazas has indicated the formation of these new life styles.

Even more rapid in its expansion are the upcoming modern middle classes, consisting of middle-level businessmen and executive, successful members of the independent professions, certain types of government and military functionaries. This rapid expansion of the modern middle classes are partly brought about by the formation of large scale organisations which absorb sizable sets of salaried individuals, mostly young men and women.

The new life styles also reflect the spread of more individualistic and directly competitive patterns of behaviour in work and leisure. New life styles also emerge among the lower classes in the urban centres, where the less fortunate are tempted to imitate the more fortunate, particularly with respect to style.

Conflicts between new life styles and more traditional life styles also occur in the village communities. The increasing dominance of a money economy, the penetration of radio and television, and better access to wider modern transportation networks cause the breaking up of the old traditionalist structures and solidarities as a result of the decline in rural isolation.

Formation of a New Social Stratification Structure

In each of the territory based ethnic societies in the archipelago the relevant population is expected to live in accordance with the existing traditional social structure. Some of these traditional social structures, such as the Javanese, the Sundanese, the Madurese, and the Balinese traditional social structures, are highly stratified with the use of honorific in front of the names of the

members of the various upper social layers to differentiate them among themselves and to differentiate the titled members of society from the commoners who do not have any honorific, or title, to exhibit.

However, most of the much smaller sized territory based ethnic societies, including the matrilineal Minangkabau and the patrilineal Batak in Sumatra and the parental Dayak ethnic societies in Kalimantan, tend to be traditionally more egalitarian, where kinship relations based on differences in sex, generation and age tend to be dominant. Practically all statuses in the more traditional societies are inherited, acquired through birth and inheritance. It is also worth noting that the religious communities tend to be more egalitarian in their patterns of behaviour even within highly stratified Javanese society.

At present, formation of a new nation-wide Indonesian social actions or roles, social collectivities, or personalities in Indonesia goes rapidly. Instead of making reference to the inherited cultural traditions, social evaluation is increasingly being done with reference to positions in the hierarchy of public authority, the size of wealth, and the level of education.

Social evaluation on the basis of size of wealth, the second evaluative reference, gives much prominence to the presence of the so-called "conglomerates", the owners of immense capital and executives of large scale business organisations and industries. This evaluative reference also puts the bankers and other men of finance generally as part of the upper social layers of Indonesian society.

With respect to wealth, the rapid formation of a class of middle level businessmen, constituting the growing so-called middle

class, has already been noted. Then there are the innumerable small traders with much smaller capital to work with, some eventually to become successful businessmen, thus acquiring positions at the higher levels of the social hierarchy. At the other extreme, however, the relatively poor population, which constitutes the bottom layers of the social hierarchy, tends to increase in size, particularly in the urban areas where many are seeking refuge from the rural areas of their origin. Similarly, the likelihood for more individual adults, including those who have earned higher education degrees but without the real capacity to earn a living on their own, to become unemployed is becoming larger.

The emerging nation-wide social stratification structure is also based on the level of education acquired. The upper layers are with education as evaluative standard, occupied by the still relatively few professors, followed by the other academics, particularly the doctorate degree holders, scientists and scholars, the other graduates of higher education (*Sarjanas*), the secondary school graduates. The primary school graduates and the illiterates constitute the bottom layers of the social hierarchy.

Ethnicity, Indonesian Nationalism and Internationalism

Three significantly different major general orientations are shown among members of present-day Indonesian society, namely the ethnic traditional orientation, the Indonesian national, if not nationalistic orientation, and the more cosmopolitan international orientation.

The ethnic traditional members of society tend to be primarily concerned with the preservation of the cultural traditions inherited from the much revered ancestors. The Indonesian national oriented members of society tend to be preoccupied with safeguarding the newly acquired sense of unity of a much larger societal community, the Indonesian nation, particularly with respect to what are perceived to be potential threats, if not real threats from outside the country.

The international oriented members of society are eager to seek opportunities for advancement beyond the limited confines of

Indonesian nationhood and frequently identify their own individual interests with those of other nations, not infrequently to the dismay, or anger, of the moral traditional or nationalistic oriented members or society.

A continuous latent tension, and sometimes open conflicts, tend to prevail among these three categories of people, although there is, to be sure, an increasing capacity for plural orientations. The further development of education and the mass media will certainly contribute much to the latter process, which, in turn, has bearing on Indonesia's relations with other nations.

Australia-Indonesia Relations in the Period of the Indonesian New Order Government

Ganewati Wuryandari

Introduction

DURING the revolutionary period in Indonesia (1945-1949), Australia developed its friendly relationship with a new Republic, Indonesia (Mackie, 1974: 3-14; Adil: 1). At this time, the Australian Labour Government and the Australian Union movement opposed Dutch colonialism and demonstrated a different level of sympathy and support to the Indonesian nationalist struggle for independence. For instance, the Australian waterside workers imposed a ban on the loading in all Australian ports of Dutch ships to Indonesia. Moreover, the members of Australian Trade Union organised some rallies to get aid for Indonesia. Apart from that, Indonesians have also always been grateful to the Australian government who in 1947, represented Indonesia's interests in the United Nations Good Offices Committee, arguing in favour of the international recognition for Indonesia's independence. It is also worth noting that the Australian government was one of the few countries who recognised the new Republic of Indonesia in either *de facto* or *de jure* in July 1947 and December 1949,

respectively (George, 1980: 36-96; Evans and Grant, 1991: 186).

However, this initial warm relationship, ironically, deteriorated steadily in the 1950s-the mid 1960s. Among other reasons, this was because of Indonesia's struggle to regain West Irian and confrontation over the formation of Malaysia (Thayer, 1988: 6).

When Soeharto came to power in the mid-1960s, the Australian-Indonesian relationship-once again developed significantly. This was demonstrated, for instance, by the visits of official leaders to each other. However, this cordial relationship did not last long. Just when the diplomats of both Australia and Indonesia thought that the relationship had reached a safe level of stability, the "incorporation" of East Timor into Indonesia, ABC Radio broadcasts about Indonesian political news and the publication of David Jenkins' article in the *Sydney Morning Herald* exhibited just how brittle the relationship was. Diplomatic activities were frozen for almost three years after that article, nevertheless, they were gradually re-established on a friendly basis.

Given the above, from the moment of Indonesia's independence, on 17 August 1945,

to the present, it does not seem unreasonable to assert that the relationship between Australia and Indonesia has been unique. As Colin Brown cited by Andrew MacIntyre rightly pointed out, their relationship as a "roller coaster: any improvement seems inevitably to be followed by a decline" (in Ball and Wilson, 1991: 145).

Many reasons have been put forward by some scholars in seeking to explain intensifying conflicts and difficulties relations between Australia and Indonesia. In this regard, Philip Eldridge argues that political culture differences are important factors causing their turbulent relationship. While others, such as MacIntyre and Hill Hall respectively pointed out their lingering security suspicions and their lack of economic ties as pivotal factors contributing to their tenuous relationship (Eldridge, 1987: 3; MacIntyre, in Ball and Wilson, 1991; Hill, in Ball and Wilson, 1991: 235).

Based on these three factors, this essay will argue that the differences between Australia and Indonesia, which cover political culture, security and economic conditions have led frequently to misunderstanding, suspicions and a sense of hostility between the two countries. Their lack of mutual interests in these areas have probably made their relationship so fragile. Nevertheless, an increasing concern over economic and defence cooperation from both sides would likely create a more stable relationship in the foreseeable future.

The major aim of this essay is to examine the relationship between Australia and Indonesia, in order to understand the cause of their periodic turbulent relations. In doing so, this essay is largely confined to the period under Soeharto's New Order Government

and will focus on political culture and strategic and economic perspectives. Finally, the future directions for their relationships will be considered.

Sources for Lacking Mutual Understanding and Tensions

Political Culture Relations

It is a fact of geography, after Papua New Guinea (PNG) Indonesia is Australia's nearest northern neighbour. But, they are unusual neighbouring countries. Despite geographic proximity, both nations are entirely different in terms of their respective languages, culture, religions, history, ethnicity, economic development, political and social values (Djiwandono, 1986: 356; McMichael, 1986: 139; Evans and Grant: 1991: 184-5).

With specific regard to political structure, Australia and Indonesia are distinct. On the one hand, Indonesia is a military-dominated state in which the office of the President represents the locus of power. Soeharto since 1967, after taking power from Indonesia's first president, Soekarno, has held command over the armed forces which operates a dual civilian-military function "dwi-fungsi" and are "primary within the bureaucracy and society" (Liddle, 1985: 71). This country which places enormous premium on national unity and stability seeks to create a State based on political and social values implied in "Pancasila" which consists of five principles: belief in God, humanity, national unity, the sovereignty of the people and social justice. As an official single state ideology, therefore, Pancasila binds all sectors of society in a common activity as inter-

preted by the ruling state. Accordingly, in this situation, criticism of the fundamental objectives of the New Order have been interpreted as sedition (Robison, 1986: 134). It has been taken because the New Order Government has been heavily obsessed with economic growth which can be sustained mainly by the maintenance of political order and stability (MacDonald, 1980: 67).

On the other hand, Australian politics operate from a liberal democratic stance within the Westminster system. Values within the liberal paradigm is applied in its society and its running government, such as individual rights, equality and freedoms, including the freedom of the press (Zainu'ddin, 1986: 41).

Comparing these two different political values, Noesjirwan makes an interesting comparison. According to her, there are three key differences between Australian and Indonesian political culture. *First*, Indonesia emphasises "mutual togetherness" in contrast to Australian emphasis on respect for privacy. *Second*, Indonesian stress collective rights whereas Australia considers that the rights of the individual are paramount. *Third*, Indonesians show concern for correct form and politeness whereas Australians value openness and frankness (Noesjirwan, 1986: 25).

These conflicting values between the Westminster-type parliamentary system of government practised in Australia and Pancasila democracy exercised in Indonesia frequently may stimulate a friction between those two nations. Each of them often tends to hold negative stereotypes of political systems which deviate from their own set of political values. Many Australian often criticise Indonesian authoritarian countries. On

the other hand, Indonesians denounce Australian liberal democratic traditions as lacking discipline and the coherent sense of direction. For example, in Australia, criticism of and disagreement with the government and its policies can be expressed publicly and candidly by opposition groups and the mass media (Djiwandono, 1986: 354). Whereas in Indonesia, freedom of the press is less important than the maintenance of social stability and harmony and public criticism of the government is often interpreted as subversive insofar as it threatens to undermine national unity of the state (Zainud'din, 1986: 44; Robison, 1986: 134).

There is no doubt, then, that Australian democratic traditions which endorse freedom of speech and expressions, in particular through the Australian press and broadcasts, have often been the catalyst for misunderstanding between the two countries. Consistent negative comments and information on Indonesian affairs appear in the Australian media undoubtedly irritate Indonesian leaders and lead to strains in the relationship. Harsh criticism of Indonesia by Australian print and electronic media is a prime factor which leads to tensions, particularly insofar as Indonesia has often refrained from publishing critical comments on Australia, or expressing criticisms in a milder way on the grounds that they are discourteous and would harm good relations (Scherer, 1986: 15; Kusumohamidjojo, 1986-145). It has been, then, not surprising that if the official view of Indonesia has tended to see that willingness to permit hostile Australian media reporting on Indonesia is inconsistent with the friendly attitude professed by Australian governments and is often regarded by Indonesia as an expression of anti Indonesian sentiment (Arndt, 1986: 46; Dji-

wandono, 1986: 355).

For some years, the running battle between the Australian media and the Indonesian authorities has been a sore point which subsequently has strained their relationship. It quickly surfaced, particularly since the deaths of five Australian journalists at Balibo on the border of East and West Timor in October 1975, the Australian media has conducted, as Gough Whitlam calls it, "a vendetta against Indonesia" (Arndt, 1986: 45; Hodge, 1991: 110).

Since then, the Indonesian governments have periodically been disturbed by the Australian media due to their broadcasts and publications on sensitive areas of Indonesia's internal political affairs. This has particularly been triggered by the Australian ABC Radio who has reported events of political disturbances in many parts of Indonesia, such as the fighting in East Timor as well as in Irian Jaya (the Free Papua Organisation's rebellion). Whereas the Indonesian media itself cannot report them due to their political sensitivity. This situation has been an enduring source of irritation to security planners and officials in Indonesia who have never wanted such incidents publicised, because they have regarded such reports as upsetting political stability. The continuing reports on these areas have resulted in the official Indonesian Government alleging, that the broadcasts have been either propaganda or taking an anti-Government line, and have been in collusion with those groups wanting to overthrow the Indonesian ruling leader. Moreover, Radio Australia's coverage of domestic subjects, in the Indonesian language, constituted Australian interference in Indonesia's domestic affairs (Hodge, 1991: 110-113). It was not surprising, then, when the Indonesian authorities in early 1980 did

not issue a new visa to the present Supervisor of the Radio Australia's Indonesian broadcasts, Joe Coman and banned his colleague Warwick Butler from working in Indonesia (Hodge, 1991: 114; Johannes, 1992: 13).

Although there were no Australian journalists staying in Indonesia, it did not mean that the running battle between the Australian media and the Indonesian authorities ceased. It continued to be a "sore point" which subsequently strained their relationships. Six years after the incident with Radio ABC, Australia's relations with Indonesia deteriorated steadily following the publication of a critical article in the *Sydney Morning Herald* by David Jenkins on President Soeharto and his family. The thrust of the article was that the system of monopolies and protection administered by the state has favoured the business interests of the Soeharto family and its associates (Robison, 1986: 133).

The outrage that followed this publication led to nearly three years breach in official relations. The Indonesian government's response was very unusual. Apart from an official protest towards the Australian authorities, it also almost immediately cancelled an important ministerial visit by Habibie, Minister for Research and Technology, put on ice military cooperation and extended a restriction on the Australian press in Indonesia, culminating in the Indonesian authorities' refusal to admit nine Australian journalists accompanying Reagan on his official visit to Bali. More dramatically, two hundred Australian tourists were refused entry into Bali and Jakarta because the Indonesian Government withdrew visa-free entry rights without warning. Other actions were that the next round of talks on joint development of the "Timor Gap" might not pro-

ceed as scheduled on 6-7 May (Robison, 1986: 132; *Sydney Morning Herald*, 17 April 1986; *Australian Financial Review*, 23 April 1986).

Many arguments have been put forward to explain the strong reactions of Indonesian leaders to critical writings and broadcasts by Australians. It was probably because the culmination of over a decade of irritation at the Australian media, which continued to criticise the Indonesian ruling state on such issues as East Timor, West Irian, human rights abuses, authoritarian methods or government direction and alleged corruption (Robison, 1986: 135; Eldridge, 1987: 2). Furthermore, it was also because according to the supporters of the "cultural relativism" argument, Australia and Indonesia have different attitudes towards criticism. On the one hand, Australians prefer to be frank in order to clear the air. On the other hand, most Indonesians are sensitive to criticism. Disagreement among them will be handled by avoiding conflict to preserve face (Crouch, 1987: 21).

These cultural differences may continue to become an irritating factor in their relationships. As one prominent Australian academic, Jamie Mackie suggests that "it is no derogation of our commitment to the freedom of the press to take account of the sensitivities and cultural characteristics of Asians when we are writing about them" (Nimran, 1986: 13). Thus, the Australian stance in responding to the Indonesians' reaction to its media, was apparent. There are neither efforts nor intentions of the Australian government to influence its media. It distances itself from the media. The freedom and independence of the news media in Australia is not negotiable in the context of bilateral relations (McMichael,

1986: 141; Hodge, 1991: 120; *Age*, 22 February 1992).

Consequently, it is not surprising that the issue is now at a stalemate. While President Soeharto also made his position clear during Mr. Keating's visit to Indonesia in April 1992, he delivered a blunt warning to Australia in the wake of the Dili massacres to "stay out of his nation's internal affairs", adding that although he wished to foster friendships internationally, this would require "adherence to the principal of mutual respect and of a mutual non-interference" (*Age*, 22 April 1992).

In the light of the aforementioned, it would appear the issue will remain largely unresolved in the foreseeable future, unless the Australian media can generate sensitivity to the cultural and political processes of other nations (*Age*, 22 February 1992). With respect to its own values of liberal democracy, therefore, this approach is certainly difficult to gain public support.

Similar to media issues, human rights, at times, have also caused relations between Australia and Indonesia to become more volatile and sensitive. This is partly because both nations hold different views on human rights. Contrary to the latter, the former does not accept that economic rights must take precedence over political rights, or that the two are mutually exclusive. As Gareth Evans asserts, that a society which respects and promotes individual freedom is more likely to enjoy economic growth than one in which collective or state rights suppress civil or political rights (Evans, 1991: 446). In turn, although some Indonesians accept these concepts as universal values, the Indonesian officials accuse the former of imposing its liberal values (Eldridge, 1987: 2). Ac-

according to the representative of Indonesian Governments in the Conference of Human Rights in Bangkok recently, the promotion of human rights must take into account the different nature of societies and the complexities of their geography, history and levels of political and socio-economic development (*Age*, 8 April 1993).

These basic differences between them, in any case, provide the immediate focus of conflict in this debate. For many years, the human rights issue has been central to Australia's involvement with Indonesia. Nonetheless, fragile ties surrounding human rights were exacerbated when Indonesian troops opened fire on a large crowd attending a memorial service at Santa Cruz cemetery and pro-independence rally in the East Timorese capital in Dili on 12 November, 1991. In this massacre, the Indonesian Supreme Court Judge, Djaelani reported that there were about 50 killed, with over 91 wounded and about 91 missing (Feith, 1992: 5). Many Australians, particularly in the wake of the Dili massacres, argued that while maintaining relations with Indonesia is important, this cannot be done at the cost of human rights of others (Crouch, 1992: 29).

Although the killings have complicated relations, the official Australian response has made it clear that the Australian government has no intention to let events in East Timor sour the relationship with Indonesia, even at the expense of domestic and international concern over human rights abuses. Despite Australian apprehension (particularly over the killing of six Australian newsmen (Whitlam, 1980: 756) and denial by the United Nations of Indonesia sovereign legitimacy over East Timor, Australian governments have continued to affirm Jakarta's claim. Firstly, under the Fraser government

in 1979, and again in 1985, when Bob Hawke stated that East Timorese were citizens of Indonesia (*Time*, 2 December 1991) and implicitly in December 1989 with the signing of the Timor Gap Treaty which relied on Indonesian sovereignty for its legitimacy.

Moreover, apart from the undermining of the Australian reputation on human rights, Mr. Keating, during his official visit to Indonesia on 21-24 April 1992 offered support for subsequent action and measures to be taken to investigate the massacre and stressed concern for what practical help could be offered to the people of East Timor (*Age*, 21 April 1992), particularly in respect of foreign aid, which he ruled would not be linked to human rights issues (*Age*, 31 March 1992). In this regard, he indicated Australia's willingness to assist economic development in East Timor by providing \$30 million aid package for this province over the next five years (*Backgrounder*: 14). Moreover, it is worth noting that Australia has become the first country to give direct aid to East Timor. Until 1989, Australian aid had been channelled through United Nations agencies or non government organisations (NGOs). In October 1989, Australia's ambassador to Indonesia, Mr. Philip Flood, presented a cheque for \$100,000 to the Governor of the Indonesian province for pilot agricultural projects (AIDAB, October 1989: 1).

Yet, the Australian governments which were initially reluctant to take a firm stand when the human rights principles were violated in Indonesia, already apparently has altered its attitudes to Indonesia in recent years. This is perhaps because, the Dili massacre has catalysed a major change in Australia's stance where the pro-Indonesian position of the government had faced chal-

lenge from the church, aid, labour and university groups (Feith, 1992: 4). These interests groups, consequently, have contributed to influence the direction of Australian foreign policy. Bruce Grant confirmed that "Australian foreign policy cannot be conducted totally apart from public opinion, which is now very strongly against Indonesia" (*Time*, 2 December 1992). It was not surprising, therefore, that Australia was one among twenty two countries who signed a resolution which was issued by the United Nations Commission on Human Rights session at Geneva on 10 March 1993. This resolution mainly criticised human rights abuse in East Timor and requested the Indonesian government to allow the United Nations' team to investigate the allegation that many East Timorese had been tortured and killed by the Indonesian authorities (*Tempo*, 17 April 1993: 14-16).

Based on the preceding discussions, it is clear that the different political cultures has contributed to their periodic strained relationship, particularly when it relates to the issue of media and human rights abuse.

Security Relations

With specific regard to the tyranny of its geographical position, it carries a consequence for the Australian security planners and officials to always give priority to their northern boundary. This is because there is nowhere else for possible threats to the Australian security to come from (Thayer, 1988: 5). Such fears of a foreign attack from the North were compounded during the Second World War when the Japanese attacked the Australian northern region in 1942. In subsequent years, fears of descending com-

munist and Vietnam War, all confirmed that the great threat was an invasion of Australian north (*Time*, 9 December 1992).

Based on its geographic position and its experience of threats from the North, therefore, it is here that concern about Indonesia has also appeared. Defence planners in Australia have taken a very close interest in Indonesia partly because of the strategic importance of the latter. In order to meet potential challenges, Indonesia may well prove important for Australian defence strategy. This is perhaps, due to the fact that Indonesia lies adjacent to Australia. With specific regard to Indonesia's geographical location, therefore, it could perform undoubtedly as a shield from any possible military attack to Australia's northern approaches, but it is also the area from or through which a military threat to the latter could be most easily posed (Millar, 1992: 372).

Over many years, this suspicion has likely arisen on the most part of Australian public figures, to regard Indonesia as some kind of security threat (Crouch, 1987: 17). This anxiety is driven primarily by the apprehension that Indonesia is an underdeveloped, overpopulous and unstable nation whose instability in its domestic politics could affect Australia's security, such as the unauthorised entry of some of West Irianese into Australian territory (Thayer, 1986: 6). In addition to this, memories of Indonesia's past behaviour as embodied in its foreign policy toward West Irian, confrontation with Malaysia and the East Timor campaign, has influenced Australian perception of Indonesia as an aggressive nation and, therefore, could be potential threat to their security. As Jamie Mackie concurred, Australia fears that Indonesia might at some time in

the future implement an "expansionist" foreign policy, still persist in many Australians (Mackie, 1973: 2).

The fear found in part of the Australian public that its nearest northern neighbour might launch an invasion of Australia in the future is also supported by Coral Bell. She argued that:

"the only nomination most Australian policy analysis could or would, make for a society within our own immediate neighbourhood with reasonable potentiality and conceivable motives posing a significant threat to Australia interests within the foreseeable future is Indonesia" (in Mediansky and Palferman, 1988: 68).

However, some scholars provide a counter argument by saying that this allegation is unfounded partly because Indonesia neither has the intention nor the economic and military capabilities to initiate such an incursion. Among those who support this argument are Harold Crouch, Robert Woolcott and Alan Beaumont (Crouch, 1986: 186; Woolcott, 1993: 19; *Australian*, 13 March 1992). According to Crouch, although Indonesia deployed its armed forces outside its border as the historical record indicates, in fact it provided little support for the conclusion that Indonesian policy is likely to adopt expansionist policies. As he claims that:

"Indonesia's past policies have never been motivated by a simple desire to acquire new territories and there are no grounds for expecting that such objectives are likely to be adopted in the future. The historical record, however, does show that Indonesia has been willing to project military power beyond her own borders when this was believed necessary to achieve what was considered a vital national objective" (Crouch, 1986: 168).

Furthermore, he argues that Indonesia simply lacks the military capacity to launch

an invasion of Australia. *First*, it is because the Indonesian army is different from that of other countries. Its forces are not specially prepared for defence, rather, its internal territorial policing functions are all important. So, although the Indonesian armed forces number more than 300,000 troops, its main function is to maintain internal stability and to defend the authority of the central government, rather than external political stability (Crouch, 1986: 170). *Second*, Indonesia completely lacks the naval and air power to back up an invasion. It has only about a dozen of frigates and two submarines. Even though Indonesia recently ordered 12 F-16 fighters, it is still left far behind the Australian Air Force capability which has 75 F-18a (Crouch, 1987: 19). Therefore, it seems that to close this gap with Australia is still difficult. Furthermore, the Indonesian defence budget is lower than the Australian defence budget. While the former spent the total of A\$709 million in its defence budget in 1990/1991, the latter's expenditure amounted to A\$9.066 million or 6.4 times compared with Indonesia (O'Connor, 1992: 191). As a consequence, the possibility that Indonesia might launch an invasion of Australia, thus, may be completely dismissed.

Nevertheless, the security suspicions about Indonesia, unfortunately, continued to linger in the majority of Australians as evidenced by the publication of the Dobb Report in March 1986. This paper itself had actually ambiguous implications for Australian perceptions of Indonesia. On the one hand, its opening sentence declared that "Australia is one of the most secure countries in the world" and it argued that no regional power was anywhere near to having the capability to launch a substantial attack on Australia. But, on the other hand, this re-

port apparently rendered Indonesia as the most likely source of military threat to Australia. According to Dibb, force structure should be developed to deal with small-scale raids on the Australian mainland and that "because of its proximity, the archipelago of our north is the area from or through which a military threat to Australia could most easily be posed" (Crouch, 1987: 19; Dibb, 1986: 4).

Not surprisingly, as a result of the release of this paper, the Indonesian Government was more than a little annoyed. To some degree, it contributed more damage to Australia-Indonesia relations which were already strained due to the publication of the Soeharto article in the *Sydney Morning Herald* the previous year. The Australian Defence Associations suspected that there was a relationship between the expulsion of Australian journalists from Indonesia with Indonesia's displeasure at the tone of the Dibb Report (O'Connor, 1992: 188; *Australian*, 23 March 1992).

Although, this report was justified naturally in Australian eyes as a consequence of its geographic circumstances, it also resulted in a growth of suspicion among Indonesians. In Hasnan Habib's view, this paper clearly demonstrated that Australia has not been able to dissipate its deep-rooted suspicion and distrust of its northern neighbours (in Ball and Wilson, 1991: 168).

Moreover, another factor that contributes to the anxiety among Indonesian defence planners to Canberra is that since the early 1970s, Australia has come to redesign its defence posture, giving a greater emphasis to strategic self-reliance developed in the framework of alliances and regional associations (MacIntyre, 1986: 1). It is not sur-

prising, then, that this review of Australian security policies has been perceived with a variety of reactions, especially among Indonesian scholars. On the one hand, some have not considered the release of the policy as an offensive military doctrine, but they have viewed this report as signalling a change in Australian self-reliance defence strategy. On the other hand, others have proclaimed the opposite. Among others Hasnan Habib as he said at the Fifth Australia-Indonesia Conference in Canberra in 1989, that:

"Australia had given neighbours the impression of being a potential military aggressor by developing a hawkish military force and was developing into a regional military superpower" (O'Connor, 1992: 188).

This latter view was likely fuelled by the Australian Government's decision to buy 18 F-11 fighter-bombers from the United States. Although the Australian Defence Minister at that time, Robert Ray, argued that the planes were needed to replace existing old F-11s, some had concerns about this Australian military build-up. The Indonesian ambassador to Australia, for example, said that the purchase would increase "possible scepticism of Australia's seriousness in security cooperation" within the region in general and Indonesia in particular (*Time*, 9 November 1992).

Although some defence cooperation to overcome these mutual security suspicions have been carried out, both parties have continued to occupy problems in managing these distrusts, particularly when including other parties, such as Papua New Guinea (PNG). The Australian defence planners have concerns about the continuing tensions along the Indonesian border with PNG which could potentially involve the Austra-

lian military (Hastings, 1985: 82). As some argue the bilateral relationship between Australia and Indonesia is less likely to result in a serious conflict compared to the trilateral relationship including PNG (Crouch, 1987: 19-20).

The main irritating source of Australia-Indonesia and PNG relationship always lies so much on the internal security problem arising from West Irian (MacIntyre: 1991: 146). Essentially, the dispute arises from opposition by sections of the Melanesian population within West Irian to the legitimacy of the Indonesian Government over it. This problem has taken root simultaneously along with West Irian history as a part of Indonesian territory.

After many years carrying out national and international campaigns, Indonesia successfully regained West Irian in 1963. Ironically, it faced a political situation which was coloured by unenthusiastic responses about their presence. On the one hand, some Irianese were positively willing to cooperate. On the other hand, others, particularly, the Free Papua Movement (OPM) opposed the collaboration. This was partly because they wanted to create an independent nation as promised by the Dutch during the last few years of their rule. As a result of this belief, therefore, they have always sought to achieve their objective (Harris and Brown, 1985: 5-6).

Later on, this movement has been also supported by some other Melanesians within Irian Jaya particularly who have been disillusioned with Jakarta's plan of transmigration. They argued that this program was being promoted as a means for creating Javanese hegemony which could render the indigenous Melanesians as cultural minority

within Irian Jaya (MacIntyre, 1986: 11-12; Budiardjo, 1986: 111). The mounting of their dissatisfaction had prompted West Irianese either to cross the border to PNG or to express their dissatisfaction in certain ways which disturbed stability in West Irian (Greenwood, 1974: 323).

A mass movement of Irianese across the border made PNG's security relations with Indonesia problematic. Apart from present political as well as economic strains within PNG itself, the continuing problem of this exodus into PNG's territory might stimulate diplomatic clashes between these two countries, and perhaps ultimately to military conflict (Harris and Brown, 1985: 1). At this stage, considering the resultant risks to Australian politics, strategic and economic interests, Australia could become involved in this conflict (Harris and Brown, 1985: 61; Crouch, 1987: 20; Mediansky, 1992: 254). Thus, based on this scenario, it is likely that Indonesia may one day launch an invasion into PNG due to the conflict on the border with Irian Jaya and then the complication may arise in the relations between Australia and Indonesia.

Nevertheless, taking these factors into account, some argued that any major conflict involving Australia-Indonesia and PNG is doubtful in the foreseeable future. Although much sympathy may exist in PNG for the OPM due to the same Melanesians, successive PNG governments wished to maintain good relations with Indonesia. They declined to support the OPM and sought to resolve difficulties through negotiation. In 1987, PNG under Wingti governments signed a Treaty of Mutual Respect, Friendship and Cooperation with Indonesia. This agreement was designed to put the relationship between those two countries

on a new and cordial footing (Mediansky, 1992: 255; MacIntyre, 1991: 147). This instrument was likely adequate to overcome a deep suspicion on the part of PNG that Indonesia would cross PNG's border.

Moreover, the assumption that Indonesia would launch an invasion on PNG and Australia seems to be seen by others as groundless. Indonesia lacks the military capacity to expand its territory towards Australia or into PNG. As it has been put forward once again by Harold Crouch:

"the Indonesian occupation of East Timor with population of less than 700,000 required an occupation force of some twenty battalions (more than two divisions) for almost a decade and still ties down a substantial number of troops. The permanent occupation of PNG with its difficult terrain and a population five times larger than East Timor's would be enormous ..." (in Ball and Wilson, 1991: 171-172).

Consequently, it is unlikely, that Indonesia could threaten either PNG or Australia.

To conclude, the relationship between Australia and Indonesia has been coloured by security suspicions and little trust for over many years. In such a situation, it is not surprising as MacIntyre rightly points out that the achievement in their relation is a shallow one (in Ball and Wilson, 1991: 148). These suspicions could threaten to cloud their relationship. Any defence policies taken by one party for the reason of its own security might be interpreted by other sides as a preparation for posing threat or aggression to the latter and also *vice-versa*.

Economic Relations

The location of Australia and Indonesia, would suggest intensive economic relations,

because geographic proximity should lead to lowering their transport costs. However, despite this fact, between the two largest economies in the Southwest Pacific/Southeast Asian region, i.e. Australia and Indonesia there have been relatively small economic relationship (MacIntyre, 1991: 56). This can be reflected by their modest trade relationship, as well as a low level of investment and aid. Consequently, neither country would likely consider very important to the other economically.

Their relative economic insignificance is clearly evidenced in the level of their bilateral trade relations. In this case, the Australian-Indonesian bilateral trade relations have rarely accounted for more than one or two per cent of the other's imports or exports (Arndt, 1986: 48; Hill, in Ball and Wilson, 1991: 218-219). Indeed, there has been increasing Australian trade to Indonesia, from \$473 million in 1970 to \$455 million and to \$700 million in 1986 and 1987 respectively (Hill, in Bell and Wilson, 1991: 216). Nevertheless, although it grew steadily during this period, on aggregate Australian trade with Indonesia was still persistently small, especially compared to Australian trade with its major traditional trading partners, such as Japan, the European Economic Community (EEC), the United States, New Zealand, Germany and Taiwan (Bell, 1991: 253). On a strict bilateral basis, Indonesia is only Australia's eleventh largest trading partner in 1992 (Baxter, *Insight*, 13 March 1993) ranked twentieth in the list of purchases of Australian exports and seventieth among the sources of Australian imports (Thayer, 1987: 9).

On the other side, Indonesia's bilateral trade relations with Australia is also negligible. Although the former's exports to the

latter increased from 0.3 per cent of its total exports in 1975 to 2 per cent during the period 1986-1988, the overall share of Indonesian exports to Australia still remained modest. This is because Indonesia continues to rely most of its import and export on the United States and Japan (Pangestu, in Ball and Wilson, 1991: 185). Based on the Indonesian statistics in 1989, 83 per cent of all its exports and 69 per cent of all its imports were sold to or bought from countries in the Asia Pacific region, especially to those two countries. In this case, Japan accounted for 42 per cent of its exports and 23 per cent of its imports, while the United States accounted for 16 per cent of its exports and 13 per cent of its imports (MacIntyre, 1991: 31).

There are many divergent factors which inhibit the limited level of trade between Australia and Indonesia. For example, both countries lack complementarity (Arndt, 1986: 48; MacIntyre, 1991: 56). They have been producing and selling almost similar primary products. As Arndt puts it:

“both are countries rich in natural resources and have traditionally relied on exports of primary products, minerals and agriculture while pursuing an inward-looking policy of industrialisation, based on a heavily protected, high-cost manufacturing sector, primarily for employment reasons” (Arndt, 1986: 48).

For many years, their bilateral merchandise trade has been mainly dominated by a small number of primary products, such as oil, Australia's imports from Indonesia and wheat as well as various resources based on products and very recently, oil, of Australia's exports to Indonesia (MacIntyre, 1991: 57; Millar, 1991: 196). Thus, a little complementarity between them has been a long-standing obstacle for substantial economic links. In addition to this, policies that ad-

vocate protection and tariffs, and high costs of shipping coupled with unreliable and infrequent services have also hindered the development of solid trade relations (McCawley, 1986: 176). For example, Australia exports of motor vehicles ceased with Indonesia's ban on imported CBU units in 1974 (Hill, in Bell and Wilson, 1991: 222).

Parallel to their trade relations, other dimensions of economic links, such as investment, are also less intense considering the proximity. Indeed, a large inflow of foreign capital has occurred in Indonesia, particularly since January 1967. This partly resulted from the Foreign Capital Investment Law which was issued by the New Order Government as an instrument to attract additional foreign investment into the country by the New Order Government (Ellison, 1990: 7). Yet, Australia has played a minor role in investment in Indonesia. As it was reflected by the period of 1970-1988, Australia's share of total Indonesian investment was around one or two per cent, with the exception in 1985 when it reached four per cent (Pangestu in Ball and Wilson, 1991: 200). In this case, Australia fell behind not only the two largest sources of direct investment in Indonesia, Japan and the United States, but it also lagged far behind South Korea, Hong Kong, Belgium, Canada, Holland, West Germany, the United Kingdom, Switzerland and the Philippines (Robison, 1986: 135; MacIntyre, 1991: 31).

Thus, on aggregate, Australian direct foreign investment flows to Indonesia are relatively small from the Indonesian point of view compared to those of other countries. One reason which is put forward to explain this lagging behind performance, is because Australia itself is “a high capital importer”. But more importantly it lags behind because

it has "an inward oriented economy and as a result an inward oriented business mentality" (Herderschee and Hughes, 1986: 17). Moreover, even though Indonesia's low labour costs and its weak Unionisation create an attractive location for foreign joint ventures, it is not likely to be a major destination of Australian foreign direct investment. Some Australian firms have retained their interests in Indonesia, because as Forbes describes it:

"Despite low labour costs, the overall costs of production in Indonesia tend to very high, so exporting is not possible. Bureaucratic involvement in business decisions is a continuous irritant" (Forbes, 1985: 15).

With regard to official development assistance, Australian aid also plays a relatively small part from the Indonesian point of view, but large from Australia's. Since 1953, Australia has been active in providing grant and project aid to Indonesia when Indonesia became a member of the Colombo Plan. During this period and its subsequent years, programme aid to Indonesia was relatively small. However, following the Indonesian change of government in 1965-1966, a change warmly welcomed in Australia, the volume of Australian aid multiplied. Small emergency grants were extended either in cash or food, and the total value of aid soared to \$5.2 million in 1967-1968, \$12.7 million and \$15 million in 1968-1969 and in 1969-1970 respectively. Its role in providing aid to Indonesia was firmly established when Australia joined the consortium of nations forming the Inter Government Group of Indonesia (IGGI) in 1967. By 1968-1969 and up to now, Indonesia has replaced India's position as the second largest acceptor of Australian aid after Papua New Guinea (PNG) (Millar, 1991: 196; Muir in DaCosta,

1991: 16). In the mid 1970s, Australian official development assistance to Indonesia was relatively constant around \$69 million. However, programme aid to Indonesia gradually declined in 1983-1984 from \$50.7 million to \$40.4 million by 1986-1987, increased again to \$46.3 million by 1988-1989 (AIDAB, 1989: 20).

Yet, these amounts only provide a small percentage of total aid flows into Indonesia. Australian official development assistance represents only three to five per cent of Indonesia's total foreign receipts, and if based on total donor contributions (including multilateral donors) the percentage share becomes even smaller at around one per cent (Pangestu, in Ball and Wilson, 1991: 205).

Thus, in terms of economic relations which covers trade, investment and aid, it has been clearly argued that Australian and Indonesian political relations have not rested on a firm significant economic base. As a consequence, one may rightly argue that this may contribute to their fragile relationship.

Based on the political culture, security and economic perspective, it may be concluded that Australia and Indonesia's relationship is far from substantial. They have developed their relationship on a fragile base. Both countries have fundamental differences and lacking mutual interests which could be used to provide a firm base for their stable relationship. In other words, the lack of depth in relations between the two countries stems from the fact that despite their proximity, for many years Australia and Indonesia have had fundamental differences in their political culture, weak economic links and lingering security suspicions. Consequently, a lack of these, even comparatively minor conflicts have been able to sour the

bilateral relationship, as the Jenkins's article demonstrated.

Future Prospects

In the preceding sections, it has been clearly demonstrated that the lack of mutual understanding in the political culture, security and economy are among the major factors that have caused a turbulent relationship between Australia and Indonesia. For many years, their relationship has experienced ups and downs. In the following section, therefore, it is worth examining the future relations between those two close neighbours, especially from the political culture, economic and defence perspective.

The fundamental differences in the political culture between Australia and Indonesia, as explained in the preceding sections will likely recur to influence the relationship between those two countries in the foreseeable future (Thayer, 1988: 9). There seems to be little prospect that Australia and Indonesia are likely to enjoy warm ties with each other in this respect in the near future. Each country tends to hold and justify their own political culture values. While some Indonesians justify community rights above individual rights as necessary for economic development acceleration, Australians place a significant emphasis on individual rights.

With regard to this diminishing common ground in terms of their political culture, therefore, in the future, to make their relationship more sound, the two countries should engage in a process of building a solid foundation of interlocking interests in other areas. In this regard, there are still plenty of other areas of mutual activities which permit cooperation where the interests of those two

countries converge (Holloway, 1986: 789-792; *Tempo*, 25 April 1992).

By far the most promising road to better mutual understanding in the long-run is through stronger economic cooperation. As Hill puts it, stronger economies ties are an essential prerequisite for the development of a more mature relationship (in Bell and Wilson, 1991: 235). It is partly because the improvement in economic relations could accommodate interlocking mutual interests between Australia and Indonesia. Moreover, it could be used as an effective ballast which would help keep the relationship stable in the event of differences which inevitably arise from time to time in any substantial relationship between countries (Evans, 1991: 639).

With a strong economic cooperation, misunderstanding usually caused by critical comments of the Australian media would not easily spoil the relationship, as has been demonstrated by the publication of Jenkins's article in the *Sydney Morning Herald*. In addition, the *Washington Post* and the *New York Times* also carried articles highly critical of the Soeharto's family and his associates. But they did not perceive any provoking responses from the Indonesian governments as the former article did (Robison, 1986: 135). The reason is that Indonesia has strong economic cooperation with the United States compared to Australia. Their relationship is relatively more solid, therefore, the publication of the same issue did not disrupt their bilateral relationship.

Fortunately, despite the existence of the differences in specific areas, in the last few years the desire to build-up relationship by increasing economic ties has been recognised by these two countries. As stated by the Australian Minister for Foreign Affairs and

Trade, Gareth Evans "the economic relationship between Australia and Indonesia is set to become a more important element in [the] overall relationship" (Evans, 1991: 639). This indicates that the political will is present on both sides to make their relationship more fruitful based on solid economic cooperation.

The most substantial achievement in this respect was the Timor Gap Zone Cooperation Treaty, signed in December 1989 and which came into force in February 1991. Despite the continuing objection from some of Timorese and the Portuguese governments, this bilateral agreement was an innovative solution to a dispute for almost 12 years over a small section of the maritime border in an areas believed to be rich in oil. To resolve the dispute it was decided that Australia and Indonesia would carry out joint oil exploration activities in the area and share any rewards equally (MacIntyre, 1991: 60; Stepan, 1990: iv). The success of this treaty did not only exclusively give an example of the successful economic cooperation between Australia and Indonesia. But clearly, it demonstrated effectively "how differences between the two systems can be overcome for [their] mutual economic benefit" (Evans and Grant, 1991: 1988).

Apart from this success, there have been also major economic reforms in the both countries which have provided a better chance for their tighter economical cooperation. Australia who has been traditionally regarded as one of the most protectionist countries, has slowly opened its trade barrier (Hill, in Ball and Wilson, 1991: 226). This can be seen from the recent economic programme launched by Mr. Keating. It was called "One Nation" in which Australia reduced several kinds of economic protection

to boost its economic development (*Tempo*, 25 April 1992).

In spite of the aftermath of the loss of the European traditional market, among the driving forces which stimulated this decision was that in late 1988, IBIS Business Information released a document called "Australia Tomorrow" in which it showed how Australia's living standards have declined from the first place in the 1970s down to the twenty fourth place in the 1980s. The document explained "much of the blames rests with the isolationist and protectionist policies pursued for most of the century". According to the document, Australia has been protected by high tariff walls, manufacturing in this country neither developed to the degree of efficiency nor succeeded to create significant export markets. Therefore, Australia must adjust itself to a harsh new reality, including the development of domestic services and opening up its market (IBIS, 1988: xi).

Parallel to Australia, economic reforms have also occurred in Indonesia. The deregulation of Indonesian economic policy, for instance, has also made it easier for Australia to invest and establish joint ventures in Indonesia. Therefore, opportunities for the further development of the economic relationship between both countries may lead to a broadening of the relationship. Changes of fortune and economic policy in Indonesia appear to be very much connected with the fluctuations of oil (Robison, 1987: 19; MacIntyre, 1990: 2). And, when oil prices halved in 1986, the Indonesian government began to deregulated and liberalise its economy. At the same time Australia slowly began to open its trade barriers. As a consequence, bilateral economic relations have since expanded.

The rapidly growing and more affluent Indonesian middle class and the significant development of industrialisation represent real prospects for further export, trade, and investment between the two nations. Two-way trade in 1991 was \$2.4 billion, this increased by 125 per cent over 1988. Consequently, it placed Australia as the eight largest Indonesian trading partner, while Indonesia ranked eleventh in the list of Australian trading partners (*Insight*, 30 November 1992). In addition, trade in services have grown substantially, particularly in tourism, education and consultancy services from Australia. During the same period, Indonesian exports to Australia rose 5 per cent amounting to \$522 million (*Age*, 12 August 1991). By 1990 Australia became Indonesia's tenth largest foreign investor with more than 120 Australian affiliate companies operating in Indonesia (Evans and Grant, 1991: 189).

As a consequence, the steady transformation in the structure of Australian and Indonesian economy have potentially made the two economies gradually more complementary (Evans, 1991: 640). Thus, the old excuse that the lack of economic complementarity has hindered the growth of the economic relationship between Australia and Indonesia has been likely rendered invalid. For instance, the emergence in Indonesia of a large export oriented textiles industry has led to an increase in Australian cotton of 400 per cent from 1985 until 1990 and over the same period Australian imports of Indonesian textile products rose by nearly 300 per cent (Evans and Grant, 1991: 190).

Another substantial achievement in their economic cooperation is that the establishment of the Ministerial Forum, an Australian initiative agreed to by the Prime Minister, Paul Keating, and President Soeharto

during his visit to Jakarta on April 1992. This forum will be held every two years with venues alternating between Australia and Indonesia. It provides an ideal vehicle for groups of ministers from both countries to explore opportunities for the expansion and development of the bilateral relationship, especially in economic cooperation. To respond with this new favourable development, Mr. Keating describes it as a new "maturity and mutual confidence" in the relationship between Australia and Indonesia (*Insight*, 30 November 1992).

In addition to their bilateral efforts to enhance economic ties, both countries have begun to cooperate in the regional and multilateral front. This stems from the fact that both Australia and Indonesia have found themselves facing what, in a number of respects, are quite similar foreign economic policy problems (MacIntyre, 1991: 60). Among the significant problems are apparent protectionism by several regional economic groupings, such as the European Economic Market (EEC) and North American Free Trade Area (NAFTA). To respond to these challenges, both countries now have a strong mutual interest in the liberalisation of the international trade through Cairns Group and the embryonic Asia Pacific Economic Cooperation (APEC).

Thus, with regard to their bilateral and multilateral economic cooperation in recent years, the economic relations between Australia and Indonesia has gradually become relatively more substantial. Consequently, these would offer significant new opportunities in their bilateral relationship. Stronger economic relations could make their fragile relationship become potentially warm. As Hill admits, solid economic ties would give "opportunities which in time

could also provide the necessary underpinning for a more durable and stable relationship'' in the foreseeable future (in Bell and Wilson, 1991: 216).

Along with this favourable development in economic relations, the security and defence relations between Australia and Indonesia has also grown gradually. Both countries are committed to develop a better defence relationship as demonstrated by a wide range of activities, including bilateral training, technical assistance, military exercises, reciprocal senior officer visits and officer student exchanges.

Despite some difficulties, there have been signs of some improvements in the defence bilateral relations since the furore caused by the *Sydney Morning Herald*. They are among others as follows: in 1986, Defence Cooperation Program (DCP) with Indonesia agreeing to put stress on its defence co-operation based on service to service level activities, such as senior visits rather than materially based projects (Mediansky, 1991: 280). In February 1988, both countries also reached another agreement, that is nuclear safety (Thayer, 1988: 8). In addition, naval exercises have been conducted regularly by Australia and Indonesia and the former has been hosting 21 Indonesian military officers at staff colleges throughout the country (*Australian*, 13 March 1993). To avoid security suspicions, a large measure with fairly transparent military capabilities has been also built. Last year, in Kangaroo exercises Indonesia was invited to attend as an observer in this exercise. Furthermore, some reciprocal official army visits have been frequently carried out over many years. It is hoped that the emphasis on person to person contact in an informal atmosphere will promote better communication and understand-

ing between the defence forces of both countries. Consequently, it would help to allay the mistrust and misunderstandings that have sometimes marked their bilateral relations.

By and large, the economic strength and security links have been potentially gratifying, all of which show promise of a substantial relationship in the foreseeable future. Indeed, there are still fundamental political cultural differences between them which would cause some misunderstanding and friction in the foreseeable future, particularly on the issue of human rights and media. However, it would not be as sour or harsh as their earlier bilateral relationship. In the past, indeed, the up and down relationship between Australia and Indonesia was caused by the diminishing a strong ballast. So, it has been relatively essay to swing between amity and anger. Consequently, their relationship was brittle. Recently, their relationship has pertinently changed. Both countries have relatively succeeded in developing their substantial economic and security relations which would be considered as a significant ballast for any possible tensions in the foreseeable future.

Conclusion

Despite their geographical proximity, the links between Australia and Indonesia have historically fluctuated. The lack of depth in the relations between the two countries stems from the fact that for many years they have held fundamental differences in political culture, lingering security suspicions and weak economic cooperation. The lack in

these areas has created misunderstanding and distrust between them and frequently led to diplomatic tensions. Nevertheless, these differences should not necessarily constitute obstacle to friendly relations and co-operation between Australia and Indonesia.

In order to develop a closer bond, the two countries should promote genuine areas of mutual interest, such as a shared set of interlocking interests which will become a strong foundation for better relations in the future. In this regard, Australia and Indonesia should develop their economic relations. With strong economic relations their bilateral relationship would not easily be spoilt as happened after the publication of Jenkins's article in the *Sydney Morning Herald*.

In a few years, the strength of their economic and security relations (up till now -- will gradually increase in the future) gradually increased which have potentially put solid foundations for a stable relationship in the foreseeable future. Indeed, there could apparently be ongoing fundamental differences between Australia and Indonesia, particularly on issues of human rights and media as a result of the differences in their respective political cultures. It seems that these issues could recur in the foreseeable future. However, these conflicts would be unlikely to hamper their bilateral relationship as in previous years. This is partly because the growing economic ties and defence cooperation between them could be used as ballast.

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Historical Variables of the United States Relations with the Southeast Asian Region

Paridah Abd. Samad

Relations between the United States and Southeast Asia have always occupied an important position in the diplomacy of this superpower and the regional countries. The pattern of relations has become more significant by the strong political and economic presence of the United States in the region. For these reasons the regional countries, especially ASEAN, have continued to cultivate closer political and more specifically, economic ties with the United States.

This paper attempts to seek factors (American historical variables) that account for the pattern of the political and economic relations between the United States and Southeast Asia. Strategies and objectives of the United States policy in the region since 1945 will be highlighted in order to understand the significance and variables which have played an important role in complicating the formulation of the United States Asian policy and creating disturbed relations with the countries in the region. This would help to highlight several substantial issues in the United States relations with Southeast Asia.

Unfortunate Position

A new pattern of political development is emerging in the Southeast Asian region after the demise of the Cold War. As communism has declined and the Soviet Union has fallen apart, the region has drawn closer in the perspective of a new "regionalism". A new "regionalism" defined in part by anti-Western feelings has begun to emerge. This is indicated by the existence of the warming-up relations between the regional countries and communist countries. Malaysia, Indonesia and Singapore have improved their relations not only with China but also with Viet-

nam and Russia. In spite of this development, the countries in the region still want to maintain their economic and political good ties with the West although the tension of their economic relations and political differences with the West are becoming more evident.

The new political pattern in the region can also be indicated by the regional emergence as a dynamic economic force. A new confidence has developed in the region to challenge the supposedly universal values of the United States and other Western countries. It has been quoted that the United

States is experiencing lesser influence in economic and security performances of the regional countries.

It is more than the factor of geography that binds the United States to the region. The United States' growing political co-operation, economic interdependence and cultural interassociation with the countries in the region, explain the vitality of the United States interests in Southeast Asia. In these new circumstances, the United States has placed the region as one of its priorities in the country's global interests.

Five critical traditional values are postulated as a framework in explaining the importance of Southeast Asia to the foreign policy of the United States since World War II: security, economic, historical psychological, political legal and the promotion of regional peace and stability.

Security: those changes of political system in the regional countries which lead to the domination of a hostile power, would pose a danger to the immediate or potential defence of the United States.

Economic: those resources, actual or potential, which are essential to the well-being of hostile power, would be seriously detrimental to the United States.

Historical-psychological: those special considerations which have arisen out of long-standing friendly association, thereby impose certain moral obligations to the United States in its commitment in the regional countries.

Political-legal: those official pledges or treaties would oblige the United States undertaking particular commitments to the governments in the region.

Regional Peace and Stability: those situations or circumstances which promote stabilised relations with major hostile powers would make the security of the United States being threatened.

Generally since 1977, after the United

States withdrew its military presence in Indochina, the policy of the country towards the region was based on its fundamental interest that the United States benefits from peace and prosperity in the region. This is consistent with its priorities of stressing in stability, trade, access and democracy which are the basic principles of the United States policy towards the region. These basic principles have still continued even after the expiration of military bases treaties between the United States and the Philippines though this expiration should inevitably have a dramatic effect on the direction of involvement of the United States in the region.

The military presence of the United States will remain in the region but in different form. The United States has welcomed an increased regional security role played by Japan. Specific policy has been designed for the Asia Pacific region such as a collective security relationship with Japan. The United States has actually wanted to see a greater political role of Japan in the region by encouraging Japan to assume greater political and military responsibilities.

Despite the decline of the United States power in the world system, the United States has sought in every way to maintain its hegemony.¹ The United States still intends to remain politically and militarily engaged in Southeast Asia and in other regions. In fact, the United States government has been forced to develop tactical plans to combat, if not the decline, at least the image of a decline. It is believed that if the United States cannot solve every problem, it can still

¹Immanuel Wallerstein, "Foes As Friend?", *Foreign Policy*, no. 90 (Spring 1993): 151. Also see Christopher Layne and Benjamin Schwarz, "American Hegemony: Without An Enemy", *Foreign Policy*, no. 90 (Spring 93): 5.

serve as a fulcrum for change and a pivot point for peace.

The maintaining of the United States hegemony can be related to the significance of the abandonment of isolation as a basic tenet of its policy, the acceptance of its role as a major partner in the free-world coalition and the assumption of a heavier burden of its international responsibilities. In continuing to maintain its hegemony in the region, the United States relations with the Southeast Asian region have been disturbed over a number of controversial political and economic issues. These have partly been determined by the United States not having shown a deep understanding of the needs and desires of the Southeast Asian countries and of not having taken them properly into account in its foreign policy.²

The disturbing relations arise in part from the United States approaches in traditional balance of power terms in any crisis happening in the region and the United States efforts to gain leverage over the political institutions by always practising as aid partners.³ Adverse relations between the United States and the Southeast Asian region can also be related to the significance of the inconsistency and incompatibility of the United States policy towards the region.

Inconsistency and incompatibility of the United States policy towards the region has made foreigners frequently unable to distinguish whether these policies that stem

from fundamental interest of the country, from one administration (and Congress) to the next, and from those policies that are subject to reversal.

Even close European allies have trouble following the objective and meaning behind every policy swing in Washington, and responding appropriately to it. Thus regional countries with short institutional memories must be confused in understanding the direction of the foreign policy of the United States.

ASEAN is regarded as the most important and promising effort at economic integration since the creation of the European Community. However, the United States has failed to understand the function of the formation of ASEAN. This failure could be related to issues of the United States leading to aggressive and interventionist efforts to mold these societies in ways Americans think desirable without recognising that these countries cannot be manipulated from abroad. This adverse situation led United States to an indecisive position that fails to promote its interest sufficiently to meet the Japanese challenges. The United States inability to convince to the regional countries on the importance of the region to its global interests, inevitably has been seen by the regional countries as aligned "with the maintenance of the status quo rather than with the forces making for a new Asia".

In fact, the United States is in a position of dilemma in pursuing its policy towards the region. There is the existence of a sense of decline of the United States importance in Asian eyes, and yet perhaps ironically, a continuing Asian desire for a strong United States role and presence. Such position of dilemma does not prevent the United States

²For further information, please refer to Lawrence B. Krause, *U.S. Economic Policy Toward the Association of Southeast Asian Nations: Meeting the Japanese Challenge* (Washington, D.C.: The Brookings Institutions, 1982), 72.

³Richard Butwell, "United States Aid in Southeast Asia", *Current History* (July/August 1979): 27.

to put the importance of Southeast Asia in the foreign policy of the country.

Historical Context

The context of historical and security interests is important in explaining the importance of the Southeast Asian region to the foreign policy of the United States. In the situation when the security interests of the United States are being threatened, long standing friendly association with the region thereby imposes certain moral obligations to the United States to involve in the affairs of the regional countries.

The region of Southeast Asia is important to the security interests of the United States. This can be demonstrated by the fact that five of the United States seven defence agreements are located in this region. They include treaties with Japan, Korea and the Philippines and the Manila Pact which adds Thailand to the United States' treaty partners. Each of these agreements appears more important today than during the time they were signed.

Traditionally the involvement of the United States in Southeast Asia can be explained by relating to its role since 1870. During the 1870s and the 1880s, the concern of the United States Department on the region was only marginal.⁴ Yet once the United States naval stations appeared in Hawaii, Samoa and Wake Island, along with the will of its entrepreneurs to invest beyond California, the United States policy towards

Asia changed. And then, the United States pursued a parity policy *vis-a-vis* European colonial powers (the Netherlands, Great Britain and France) in order to advance its own trading relationship in the region.⁵

Since Asia, especially China and Japan offered attractive market potential for big business, especially in steel and services, the business community in the United States extended their support for a more global strategy. The United States first attempt to assert itself politically and militarily in the Southeast Asian region was the Philippines, in 1898. Long before World War II, the United States was clearly on record in support of independence for colonial areas.⁶ The United States had made its commitment to the Philippines soon after the defeat of the Spanish in 1898.

Although the United States role in ending the World War II was considered as the only major military force in Asia, the pattern of the involvement of the United States in the region at the earlier stage was determined by a reluctant rôle of this country to commit in the regional affairs. This was partly resulted by the significance of traditional objective of the United States in the Southeast Asia. This traditional objective of the United States did not change considerably after the defeat of Japan in 1945.

Traditional objective of the United States required the country to elevate its economic, social and cultural relations with the region and lessen its reliance on military strategies. The United States hoped to remain aloof

⁴Charles H. Stevenson, "U.S. Foreign Policy in Southeast Asia: Implications for Current Regional Issues", *Contemporary Southeast Asia* 14, no. 2 (September 1992): 93.

⁵Ibid.

⁶Donald G. McCloud, *System and Process in Southeast Asia: The Evolution of a Region* (Boulder: Westview Press, 1986), 165.

from problems between colonies (in whose advancement toward self-government) and European colonial powers (in whose friendship, stabilisation, and reconstruction it had an immediate interest and large investment).⁷ Thus the United States disassociated itself from the colonial policies that were its allies. The United States respected for existing sovereignty and believed that a peaceful and equitable solution would emerge if both proceeded responsibly and in good faith.

Aspiring to maintain the best of relations with colonial powers while promoting the progress of colonial peoples, in fact, the United States found it difficult to resolve the conflicts between its European and Asian interests. The United States involvement in the decolonisation of Indonesia was more on its involvement in the United Nations operations.⁸ Involvement in the United Nations operations made the United States interest self-reinforcing and easier for its representatives to take the initiatives. Indonesia had come third, after China and the Philippines in the United States direct investments before the war.

Two different positions of the United States involvement in the region after the end of the World War II can be identified. These different positions of involvement are: *one*, the reluctance of the United States to involve in the regional affairs in order to prevent clash with the colonies and, *two*, the requirement of the United States to prevent the spreading of communism. Communist

influence not only come from the Soviet Union but also from China.

In such position, the United States which was filled by belief of its being the champion of democracy and liberation preferred the new emerging countries in Southeast Asia and their former rules to be the best safeguard against the danger of internal discord or domination by communism or pan-Asianism, both are antithetical to the West.⁹ For several years, the United States had been relatively inactive in the region. It has only continued to feel a sense of obligation to the Philippines.

Consistent of its being the champion of democracy and liberation, the United States pursued its objective of fashioning a global political and economic system that would provide stability. The most practical way to achieve this was the establishment of a world trade and monetary regime based on liberal trade principles and fuelled by the industrial furnaces in the United States and Western Europe.

The only obstacle to the realisation of this vision was Joseph Stalin. The Soviet Union and its recently acquired satellite states posed an insurmountable impediment to the creation of a truly global system,¹⁰ which was a crucial factor to the involvement of the United States in Vietnam War.

John Foster Dulles who was appointed adviser to the Secretary of States in April 1950 in his book "War and Peace", had discovered a quotation in Stalin's massive tomb of 1924. Stalin quoted that the road to

⁷Evelyn Colbert, *Southeast Asia in International Politics 1941-1956* (Ithaca: Cornell University Press, 1977), 86.

⁸For further information, please refer to Donald G. McCloud, *System and Process in Southeast Asia*.

⁹Evelyn Colbert, *Southeast Asia in International Politics 1941-1956*, 88.

¹⁰Charles H. Stevenson, *U.S. Foreign Policy in Southeast Asia ...*: 95.

victory of the revolution in the West lies through the revolutionary alliance with the liberation movement of the colonies and dependent countries, which he believed to be the unshatterable keystone of Soviet policy in Asia.¹¹

At the early stage, Southeast Asia did not seem to be an area in which the United States should undertake significant responsibilities. This view began to change in the wake of the communist victory in China. In addition, by late 1949, as the need to reduce the massive expensive programs the United States had undertaken in Europe and as frictions developed among the Western Allies, isolationist sentiments directed against Europe were reinforcing the United States for a more active Asian policy.¹²

Congress, in the Foreign Ministry Assistance Act of 1949, expressed itself as favouring the creation of the free countries in the Far East by a joint organisation to establish a program of self-help and mutual co-operation which designed to develop these countries' economic and social well-being, to safeguard basic rights and liberties, and to protect their security and independence. Initially, Congressional attention was focussed on China rather than on the countries in the Southeast Asian region. After the Chinese Communist victory, these regional countries began to receive a greater share.¹³

In August 1949, Secretary of State Dean Acheson announced a Committee chaired by Philip C. Jessup to study the United States policy in Asia and make recommendations

for the future. This announcement can be related to the significance of the decision of the United States for not permitting further extension of communist domination in the continent of Asia or the Southeast Asia area.¹⁴ The increased importance of Southeast Asia to the United States global policy was in part from the view of the rest of Southeast Asian being so weak and unstable. The National Security Council concluded in February 1950 that the neighbouring countries of Thailand and Burma could be expected to fall under communist domination if Indochina were controlled by a communist-dominated government.

There were other countries in the region that were also important to the United States. Malaya and Indonesia, were the principal world source of natural rubber and tin. Indonesia was a secondary source of petroleum. Malaya was the largest net dollar earner for the United Kingdom, and its loss would seriously aggravate the economic problems facing the United Kingdom.

In facing the danger of falling under communism domination, the countries in the region were not at that time in a position to form a regional organisation for self-defence nor were they capable of depending themselves against military aggressive communism. While recognising the heterogeneity of countries in the Southeast Asian region, the United States persisted in the belief that these countries would be welded together into a militarily useful anti-communist front.

Under the impact of a Viet Cong success, there were strong grounds for the United States to believe that an all Communist Vietnam would pose a substantial threat to Indo-

¹¹Evelyn Colbert, *Southeast Asia in International Politics 1941-1956*, 143.

¹²*Ibid.*, 137.

¹³*Ibid.*, 138.

¹⁴*Ibid.*

china's stability. In the early 1950s, decision-makers in the United States placed Vietnam within the overall security situation of the Southeast Asian region.

Beijing may under certain conditions, continue to encourage liberation movement regardless of the outcome in Vietnam. China's probable reactions to a Vietnam situation will either immediately or potentially look favourable to the Vietnamese Communists because of an American withdrawal. The extension of communism authority in China, together with the impact of the Viet Cong represented a grievous political defeat to the United States. The communist's sweeping of Southeast Asia meant that the United States should have suffered a major political rout, the repercussions of which would be felt throughout the rest of the world. This situation had significantly pushed the United States to involve more actively in the political and economic affairs of the countries in the region.

The United States played a significant role towards the solution of the Indochina War. The Indochina War had certain implications for regional peace and security. It was expected that the continuing conflict allowed time for the Soviet Union to expand its sphere of influence in Southeast Asia. The war which threatened to spill over to Thailand which has a security alliance with the United States, endangered ASEAN (the Association of the Southeast Asian Nations) security and unity.¹⁵ The ASEAN countries are of great political and strategic importance in themselves because they straddle crucial sea-lanes and are neighbours of troubled Indochina. ASEAN was formed in

1967 and consisted of Indonesia, Malaysia, Singapore, Thailand, the Philippines and later Brunei.¹⁶

The fall of Saigon in April 1975 was a major stimulus for the United States readjustment of its policy in the region. This also gave the country's compelling reasons to anticipate a reassertion of Soviet influence in the region. Since then, the region was placed in a wider global context to avoid the dangers of communist influence.

There have been two features of this readjustment of policy. *First*, within the region, the Carter Administration initially promoted ASEAN as an economic organisation that would stimulate the area's development. Later, the Reagan Administration came to view ASEAN as a political and diplomatic organisation that would focus world attention upon the Soviet Union's presence in the region. *Second*, outside the region, the United States was tempted to develop a diplomatic alignment with China that would act to counter Soviet influence in Indochina.

The United States may be quite satisfied with the indirect benefit of maintaining a politically stable and economically prosperous region which would strengthen the United States global strategic design. It was important to the United States to meet and consult ASEAN leaders in advancing peace and prosperity in the region. The first formal contact between Washington and ASEAN as a collective entity took place in Manila in September 1977.

¹⁵Charles H. Stevenson, *U.S. Foreign Policy in Southeast Asia*: 100.

¹⁶For further information on the importance of the United States to the ASEAN region, please refer to Karl D. Jackson and M. Hadi Soesastro, *ASEAN Security and Economic Development* (Berkeley: Institute of East Asian Studies, 1984); 310.

In the second US-ASEAN dialogue, held in Washington, D.C. in August 1978, which witnessed participation by ASEAN's foreign ministers and half of the United States cabinet, together with Vice President Mondale. This meeting set into motion an organisational chain reaction which multiplied discussions in different fora at different levels.

The general pattern of relations between the United States and ASEAN could be related to two parallel developments. *First*, is the fact that the United States is pursuing active and productive bilateral relations with each member state of ASEAN. *Second*, it should be acknowledged that the United States constitutes only one out of seven ASEAN dialogue partners, the others being Australia, Japan, Canada and New Zealand as well as the EEC and UNDP/ESCAP.

Although the United States constitutes only one out of seven ASEAN dialogue partners, the warming-up of the United States relations with ASEAN in the 1970s was parallel with the objectives documented in the National Security Council (NSC). The 1954 NSC document stated that a major United States purpose was to assist the countries of Southeast Asia to develop stable, free governments with the will and ability to resist communism, thereby to contribute to the strengthening of the Free World.¹⁷

In attempting to develop the strengthening of the Free World and to develop a healthy international community, it is required for the United States to lead an effort to build a world order. Thus, the United States should assume its global responsibilities.

If the United States fails in its responsibilities, it would mean that the United States will miss an opportunity to create a more democratic and stable world.

In this requirement, the United States has to commit not only to the global security level but also to the security of particular regional countries from external domination by not encouraging to the preservation of reprehensible governments. However, the United States sometimes imposed its values on another political system and acted so as to create or give the impression of having a vested interest in the continuation of power of regimes carrying out undesirable political and economic policies and in the request to the regional countries to be an ally of the United States.

Trade and access were two opportunities and were the reason for the involvement of the United States in the region. These two opportunities were tied to its general security policy opposing socialist system. The United States has rewarded those developing countries in the region which shared the United States vision of a stable democratic and free market system. In other words, in order to have access to world trade and finance, it was essential to the regional states to be an ally of the United States. However, this practice has caused the United States being perceived as both provider and thief, peaceful ally and awesome adversary.

This explains the existence of anti-America feelings in the regional countries. The first view of anti-America presence was perhaps best represented by Indonesia under the leadership of President Soekarno (1945-1965). Malaysia had in the past hesitated to contribute towards the continued presence of the United States bases in the region.

¹⁷Ronald D. Palmer, "Malaysia: A Micro Model for U.S.-ASEAN Relations", Conference on US-ASEAN Relations: Prospects for the 1990s, ISIS, Kuala Lumpur, March-April 1986, 14.

However, Singapore has offered the use of its port facilities for United States naval repair, resupply and training. Nevertheless, almost all countries in the region especially ASEAN countries have endorsed a continued United States presence in the region.

Despite an almost a century of United States presence in the region, suspicion and ambiquity towards this country still persist. To respond to the negative perception of the regional countries on the United States, there were sectors in the United States, such as domestic targeted industry, organised labour and the political opposition, that have come to view the region as defiant, bent on asserting its right and independence, seemingly ungrateful for the years of American support. In fact these groups asked for the termination of economic assistance to these regional countries, commencement of selective trade barriers, and a limited withdrawal of the United States forces from the region.

The United States over-concern for the progress of democracy and its emphasis on humanitarian, are other issues that have increased its difficult relations with the countries in the Southeast Asian region. The United States interest in widening the area of democracy is a source of major frustration. Although, there is the sincere concern for the progress of democracy and representative government in the region, there are strict limitations on the nature of democracy being proceeded. This can be related to the significance of the authoritarian governments of Southeast Asia.

The authoritarian system does not guarantee that the institutions of representative government will develop or that democracy will succeed. The authoritarian systems of Asia have produced stability and prosper-

ity for their people. Asia will resist Western efforts to promote human rights, particularly if they are seen to threaten the foundations of Asian economic success. In other words, authoritarian system may be appropriate to maintain the economic success of Southeast Asia.¹⁸

The United States and many European countries have increasingly emphasised human rights in their foreign policy.¹⁹ The United States policy has given frequent expression to its idealism and humanitarianism in Wilson's Fourteen Points, the United Nations Charter, the underlying concepts of the United Nations Relief and Rehabilitation Administration (UNRRA), the World Health Organization (WHO), and the United Nations International Children's Emergency Fund (UNICEF).²⁰ A body of international law on human rights gradually developed, codified in the United Nations Charter, the Universal Declaration of Human Rights and other international instruments.

However, the Western over-emphasis on human rights has actually shaped the perception among the regional countries that human rights issue has been used as an instrument for the West to suppress the developing countries that have not supported the Western political ideology or countries that are seen to impose threat on economic competitiveness in global trade.

Human rights was considered as an ideological instrument of the East and West

¹⁸Aryeh Neier, "Asia's Unacceptable Standard", *Foreign Policy*, no. 92 (Spring 1993): 43.

¹⁹Lawrence B. Krause, *US Economic Policy Toward the Association of Southeast Asian Nations*, 84.

²⁰John Kerry King, *Southeast Asia in Perspective* (New York: The Macmillan Company, 1956), 6.

struggle. In addition to democracy, human rights is associated with a mask for Western cultural imperialism. In hitting back at Western "hypocrisy" on human rights, Asian nations gathered in Bangkok in May 1993 to issue a definition of human rights that puts more emphasis on social stability and economic development than on individual freedoms.²¹

Human rights is a key issue in United States ties with several countries in the region, especially Burma, Vietnam, Indonesia and China. Human rights issue in Burma is considered important in contemporary political agenda in the Southeast Asian region. One of the blatant issue of human rights violation is the military junta's ignoring of the results of a 1990 landslide election victory for opposition leader Aung San Sau Kyi and keeping her under house arrest.

Although every Southeast Asian country can be counted a violator of human rights in at least some respect, the regime in Burma is viewed as one of Asia's most outrageous abusers of its own population. However, ASEAN countries have different approaches in perceiving and dealing with human rights issue in this country.

It is in ASEAN's interests to offer incentives and encouragement rather than to attempt a policy of isolation that would harm the people of the country. In fact, ASEAN considered to invite Burma to become an observer at its meeting in 1994. ASEAN's collective stance on the issue of human rights in Burma is one of "constructive engagement" that seeks to persuade the government in Burma to change in the interest of its political and economic development and its

commitment in regional affairs. The ASEAN refusal to pressure Burma on the human rights issue is partly economic. Burma is expected to provide a good trade opportunities to the ASEAN countries.²²

The difference in the West's and ASEAN's approach to the human right problems in Burma reflects a deeper disagreement over the meaning and the priorities to be accorded "human right" in national political life. In general the Southeast Asian countries are particularly opposed to the idea of attaching conditions based on human rights practices to economic issues of trade and assistance.

Substantial Issues

The assessment of the historical variables highlights several substantial issues that have determined the direction of the United States involvement in the region. These issues can be postulated as:

- Before World War II the United States did not have direct diplomatic relations with the countries of the Southeast Asian region with the exception of Thailand. Military analysts contend that Southeast Asia is vital to United States security in terms of military strategy. Economists contend that Southeast Asia is of utmost importance to the United States because of its vital natural resources and trade potential.

This explains the increasing United States security interests in the region since World War II and the maintaining of its military presence even at present, has taken in the different forms of commitment. Before that period the United States security interests in the area were slight, and con-

²¹*Christian Science Monitor*, December 15, 1993.

²²*Ibid.*

fined, for the most part, to the Philippines, then an American possession.

The different form of United States commitment and current undertaking in the region needs the initiatives of the country to forge a fresh global partnership with Japan that reflects a more mature balance of political and military responsibilities.

Besides encouraging Japan to assume greater political and military responsibilities in the region, the United States also need to develop multilateral forums for security consultations in the region while maintaining the solid foundations of its alliances, to evade the nuclear threat, to move toward peaceful reconciliation on the Korea Peninsula and to restore firm foundations for cooperation with China where political openness catches up with economic reform.

- Since the strategic importance of Southeast Asia to the United States both in military and in economy needs to be maintained, the basic minimum requirements for the protection of United States security and economic interests in the region requires:

a) the government institutions in Southeast Asia to win popular loyalty, confidence and active support and to achieve sufficient strength and unity to maintain internal law and order. Without these, the Southeast Asian region would remain an area of weakness and confusion which could easily be corrupted by communist interference. This is consistent with the United States fundamental interest that the country benefits from peace and prosperity in the region. The United States still believed that the progress of democracy is important to be seriously proceeded in

the regional countries. Thus, it is important for the United States to continue its efforts to secure independent and democratic Cambodia;

- b) the economic progress and development in the regional countries to be sufficiently rapid which will bolster the political system. This is consistent with the United States priorities of stressing in stability, trade, access and democracy which is the basic principles of its policy towards the region. The United States strengthening APEC (Asia Pacific Economic Cooperation) and the United States deepening its ties with ASEAN is crucial in the protection of its economic interests in the region;²³
- c) the existing tensions between Southeast Asia and the United States resulting from suspicion of American motives, fears of American imperialism on race antagonism need to be eased. This explains the incompatibility of implementation of the United States policy towards the region. Some important adjustments should be made especially in the context of the country's attitude towards the region of its regional policy.²⁴ This is crucial in preventing the erosion of the United States prestige and status in the region and in preventing the increased feeling of anti-America. The United States should show its deep understanding of the needs and desires of the countries in the region and should reduce its concern for the progress of democracy and its emphasis on human rights issue in the region.

²³Stephen W. Bosworth, "The U.S. and Asia in 1992: A New Balance", *Asian Survey* XXXIII, no. 1 (January 1993): 108.

²⁴Ibid.

Book Review

A Keen Observation of Needs*

Pemilihan Umum 1992: Suatu Evaluasi [1992 General Elections: An Evaluation], by M. Sudibjo (Editor). Jakarta: Centre for Strategic and International Studies, 1995, 224 + vi pp. Reviewed by St. Sularto, *KOMPAS*, Jakarta.

THAT the ideal assessment and requirement of a book is not a compilation of papers or articles, may be right. That should be the last option after it is no longer possible to expect a book as a result of perseverance, painstaking effort and accumulation of knowledge on a certain problem. However, facing the demand of practical reality publishing a compilation of writings may be one option.

This is analogous to the activities of the press in making the world aware of the need for, among other things, actuality, indepth, proportionality of informative state of affairs. Hence, publishing books means to do likewise. This calls for a keen eye to meet people's need.

Viewed from the perspective of actual and informative need, one may evaluate the

book consisting of a compilation of papers of reflections on the 1992 General Elections. As a book that should meet all required conditions, it is obviously inadequate. But it fullfils two requirements: the actuality aspect (recently LIPI or the Indonesian Science Institute was asked to conduct research on proceedings of the 1992 General Elections to improve the 1977 General Elections) and the informative aspect (analyses or assessments of a number of experts on proceedings of the 1992 General Elections).

Since the seven experts were asked to relatively represent the spectrum concerned, the compilation of these papers shows a clear red line: a practical evaluation (practice and reflection) of the 1992 General Elections.

An Evaluation of the 1992 General Elections

According to Harry Tjan Silalahi, vice chairman of the Board of Directors of CSIS (Centre for Strategic and International Studies), the decline of the number of votes acquired by Golkar or the Functional Group (282 seats) compared with the 1987 General Elections, means Golkar lost 17 seats, while PPP or the United Development Party 62 seats (gained 1 seat) and PDI or the Indonesian Democratic Party 56 seats (gained 16 seats), was a new phenomenon (page 29).

*Translated from *KOMPAS* (Jakarta), 30 April 1995.

The new phenomenon was among others change of the pattern of voters in society. The traditional or primordial ties which had previously determined the pattern of voting was being abandoned in the 1992 General Elections in some regions.

Dr. Amir Santoso, a lecturer of the Faculty of Social and Political Sciences of the University of Indonesia noted that the busiest institution in the 1992 General Elections was the government. It could be said that the three organisations contending in the general elections did not do much: did not improve the efficiency of their work; there was no innovation in the theme or campaign (page 41-42). The support of the middle class for Golkar, was a phenomenon not caused by emotional or primordial factors, but was more based on a pragmatic attitude. A democratic attitude that should be focused on political education, one form of which was sportivity (willing to accept defeat, page 46).

For Golkar, according to Dr. Riswandha Imawan, a lecturer of the Faculty of Social and Political Sciences of Gadjah Mada University, the decline of the number of the votes acquired by Golkar has not only caused concern but was also embarrassing (page 50). He saw that compared with the 1987 General Elections, the 1992 General Elections was more competitive in that it indicated that people were not easily mobilised to support a certain political party (OPP). As expected by many, Riswandha suggested that effort be made to have psychological linkage between the represented and the representatives without giving the impression of "improperly promoted figures".

Oka Mahendra, member of the Central Executive Board of Golkar or DPP Golkar

of 1988-1993, did not directly talk about the 1992 General Elections. He placed more emphasis on the overall process of the 1992 General Elections, among other things on the campaign. The phenomenon of *Golput* (white group, a loosely knit grouping critical of the New Order's methods), he said, could not be determined in a simplistic manner, but should be based on research. He proposed two work agenda, identifying the motivation of *Golput* and looking for new forms of campaign (page 73-75).

Kwik Kian Gie, in his capacity as Head of the Research and Development Institute of the Indonesian Democratic Party (PDI) of 1989-1994, utilised this position to explain PDI's vision of the 1992 General Elections (page 78). Not much different from what Riswandha said, he added, PDI noticed people had felt the lack or fell short of democracy in economical and political fields for a long time. It had been estimated that the number of votes of PDI would increase even if it had not participated in campaigns (page 81).

Responding to Amir Santoso's paper, H. Matori Abdul Djalil the General Secretary of the Central Executive Board of the United Development Party (DPP PPP) of 1989-1994, saw that the trend of political thinking and behaviour at present showed a shift of political culture in society (page 84), a culture that was open to the demand of political constellation in the future (page 87).

After the six papers that presented the reality of the practice of the 1992 General Elections, the seventh paper of Hari Soegiman the General Director of Social and Political Department of Home Affairs (*Dirjen Sospol Depdagri*) of 1983-1992 was also published. The principle of *das Sollen* was

expounded that should be done by including the juridical apparatus. He concluded that the general election was a long process (page 146).

Open for Discussion

Many things and statements should have been discussed. Kwik Kian Gie's statement is a case in point (page 81). The greater number of votes gained by PDI, he said happened on account of the dissatisfaction of society because life fell short of democracy (page 78), which had to be elaborated further. Why? While people witnessed the "boisterousness" of a number of the campaign's contestants in DKI Jakarta (Special Capital District of Jakarta) during the 1992 General Elections, it turned out that the situation did increase the votes of Golkar compared with the 1987 General Elections (cf. page 169). How could the research and development institute of PDI made the conclusion that even if without a campaign, PDI would be able to gain a greater number of votes?

As Kwik Kian Gie put it (page 77), Riswandha's statement about the emotional attitude which tended to bring about a political realignment, was still open for further

discussion. According to Riswandha, the behaviour of voters was determined by the identification of party, widespread rumours and the candidates that were put to the fore. If that was the case, provided the three factors are decisive in the result of the 1992 General Elections, wasn't it exactly a manifestation of a rational behaviour and not just an emotional one?

The fact that there are still many statements and problems on the one hand, showed the successful performance of the presentation. As the bait, their papers could elicit further discussions. On the other hand, viewed from the point of view of an ideal substance of a book, publishing a book without further elaboration and discussions in seminars, the statements and issues concerned are "just suspended in the air".

Nevertheless, considering that discussions had been held just a month after the general elections, to conduct a discussion about the 1992 General Elections still calls for keen and conscientious efforts. Those efforts should be verified again by publishing it as a book. As complementary analyses to similar books and analyses of the 1992 General Elections hopefully this book will be useful for further research on the form of campaigns or general elections in the future.

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